

Financial Section

Independent Auditor's Report



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Mr. John Charles, Director
Department of Retirement Systems
Olympia, Washington

We have audited the accompanying financial statements (including the individual fund financial statements) of the Washington State Department of Retirement Systems as of and for the year ended June 30, 2004. The Department of Retirement Systems is a part of the State of Washington's primary government. These financial statements are the responsibility of the Department of Retirement Systems' management. Our responsibility is to express an opinion on these financial statements based on our audit. The prior year summarized comparative information has been derived from the Washington State Department of Retirement Systems' June 30, 2003, financial statements and in our report dated November 18, 2003, we expressed an unqualified opinion on those financial statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the 2004 financial statements referred to above present fairly, in all material respects, the financial position of the Washington State Department of Retirement Systems as of June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States. Also, in our opinion, the financial statements present fairly, in all material respects, the financial position of each of the individual funds of the Washington State Department of Retirement Systems as of June 30, 2004, and the results of operations of such funds for the year then ended in conformity with accounting principles generally accepted in the United States.

The accompanying management discussion and analysis and required supplementary information listed in the accompanying table of contents is not a required part of the basic financial statements, but is supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The supporting schedules as listed in the accompanying table of contents are presented for the purposes of additional analysis and are not a required part of the financial statements of the Washington State Department of Retirement Systems. Such information has been subject to the auditing procedures applied in the audit of the financial statements and in our opinion, is fairly stated in all material respects in relation to the financial statements of each of the respective individual funds taken as a whole.

The introductory, actuarial, investment, and statistical sections of this report are not required parts of the financial statements, and we did not audit or apply limited procedures to such information and do not express any assurance on such information.

Peterson Sullivan PLLC
November 19, 2004

Management's Discussion and Analysis

This discussion and analysis of the Washington State Department of Retirement Systems (DRS) financial performance provides an overview of DRS' financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Letter of Transmittal beginning on page 16 and DRS' financial statements, which begin on page 33 of this report.

FINANCIAL HIGHLIGHTS

The following financial highlights occurred during the fiscal year ended June 30, 2004:

- The combined plan net assets of all the pension funds administered by DRS increased by \$5,161.4 million during Fiscal Year 2004.
- The covered payroll requiring both employee and employer pension contributions reported during the year totaled \$12,796.7 million, representing an increase of 2%. Employee contributions increased by 17% and employer contributions increased by 5%.
- Net investment earnings (net appreciation in the fair value of investments, plus interest and dividend income, less investment expenses) increased by 314% compared to last fiscal year.
- Pension benefits paid to retirees and beneficiaries increased \$85.2 million bringing the total benefit payments to \$1,940.6 million. Refunds of contributions paid to former retirement system members upon termination of employment increased from \$154.1 million to \$183.9 million.
- Administrative expenses totaled \$25.3 million, a decrease of 12% from last fiscal year.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis serves as an introduction to the DRS basic financial statements, which consist of the following components: basic financial statements, notes to the financial statements, required supplementary information, and other supporting schedules.

Basic Financial Statements

The basic financial statements presented for the fiduciary funds are fund financial statements and include a Statement

of Plan Net Assets and a Statement of Changes in Plan Net Assets. The fiduciary funds include defined benefit and defined contribution pension trust funds, the deferred compensation program trust fund, and the dependent care assistance program agency fund. The Statement of Plan Net Assets presented on pages 33-36 reports the assets, liabilities and resulting net assets available for pension and other benefits as of June 30, 2004. The Statement of Changes in Plan Net Assets presented on pages 37-40 reports the additions to, deductions from, and resulting net change in net assets for the fiscal year ending June 30, 2004.

The basic financial statements presented for the governmental fund include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities. The governmental fund administered by DRS is a special revenue fund used to account for the administrative revenues and operating expenditures incurred in administering the dependent care assistance program. The Balance Sheet/Statement of Net Assets presented on page 41 has three separate columns: Balance Sheet, Adjustments, and Statement of Net Assets. The "Balance Sheet" column presents the assets, liabilities, and fund balance using the current financial resources measurement focus and the modified accrual basis of accounting. The "Statement of Net Assets" column presents the difference between assets and liabilities as net assets and uses the economic resources measurement focus and accrual basis of accounting. The "Adjustments" column displays the changes needed to adjust the Balance Sheet line items to the line items in the Statement of Net Assets. This statement reports the assets, liabilities and fund balance/net assets for the special revenue fund as of June 30, 2004. The Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities presented on page 42 has three separate columns: Statement of Revenues, Expenditures and Changes in Fund Balance; Adjustments; and Statement of Activities. The "Statement of Revenues, Expenditures, and Changes in Fund Balance" column presents the inflows, outflows and balances of current financial resources using the current financial resources measurement focus and the modified accrual basis of accounting. The "Statement of Activities" column is presented using the economic resource-

es measurement focus and accrual basis of accounting. The “Adjustments” column displays the changes needed to adjust the Statement of Revenues, Expenditures and Changes in Fund Balance line items to the line items in the Statement of Activities. This statement reports the revenues, expenditures, and resulting fund balance/net assets for the special revenue fund for the fiscal year ending June 30, 2004.

Notes to the Financial Statements

The notes to the financial statements presented on pages 43-66 of this report are an integral part of the financial statements and include additional information not readily evident in the statements themselves. Note 1 provides a summary of significant accounting policies and plan asset matters including the reporting entity, measurement focus, basis of accounting, investments, reserves, capital assets, long-term liabilities, financial statement formatting, and any accounting and reporting changes. Note 2 provides a general description of DRS, plan descriptions, and funding policy.

Required Supplementary Information

Because of the long-term nature of a defined benefit pension plan, financial statements alone cannot provide sufficient information to properly reflect the plan’s ongoing plan perspective. The required supplementary information consists of two historical trend schedules and related notes. The Schedules of Funding Progress presented on pages 67-68 include historical trend information about the actuarially funded status of each plan from a long-term, ongoing plan perspective and the progress made in accumulating sufficient assets to pay benefits when due. The Schedule of Contributions from Employers and Other Contributing Entities presented on page 69 includes historical trend information about the annual required contributions of employers and the contributions made by employers in relation to this requirement. These schedules provide information that contributes to understanding the changes over time in the funded status of the plans. The Notes to the Required Supplementary Information presented on pages 70-71 accompany the two trend schedules and summarize the actuarial and economic methods and significant assumptions used for the most recent year.

Supporting Schedules and Other Financial Information

These schedules and the Statement of Changes in Assets and Liabilities--Dependent Care Agency Fund are presented on pages 72-75 and they provide additional detailed information useful in evaluating the condition of the plans administered by DRS. These schedules include information on administrative expenses, investment expenses, payments to consultants, and other additional information.

FINANCIAL ANALYSIS OF DRS FUNDS

Analysis of Net Assets – Fiduciary Funds

	(dollars in millions)			
Net Assets	Fiscal Year 2004	Fiscal Year 2003	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled				
Investments	\$47.9	\$37.0	\$10.9	29%
Receivables	269.7	444.5	(174.8)	(39%)
Capital Assets, Net of				
Depreciation	1.1	1.2	(0.1)	(8%)
Investments,				
Noncurrent	49,843.4	42,837.1	7,006.3	16%
Other Assets	1.2	1.3	(0.1)	(8%)
Total Assets	<u>50,163.3</u>	<u>43,321.1</u>	<u>6,842.2</u>	<u>16%</u>
Liabilities				
Obligations Under				
Security Lending				
Agreements	3,310.1	1,435.2	1,874.9	131%
Other Short-Term				
Liabilities	113.1	307.1	(194.0)	(63%)
Long-Term				
Obligations	1.2	1.3	(0.1)	(8%)
Total Liabilities	<u>3,424.4</u>	<u>1,743.6</u>	<u>1,680.8</u>	<u>96%</u>
Total Net Assets	<u>\$46,738.9</u>	<u>\$41,577.5</u>	<u>\$5,161.4</u>	<u>12%</u>

Total trust fund assets as of June 30, 2004 were \$50,163.3 million and were mostly comprised of investments and contributions due from employers. This is an increase of \$6,842.2 million or 16% over the last fiscal year, and is primarily due to increased investment earnings in the U.S., non-U.S. and private equity asset classes.

Total trust fund liabilities as of June 30, 2004 were \$3,424.4 million and were mostly comprised of obligations under securities lending. This is an increase of \$1,680.8 million or

96% over the last fiscal year, and is primarily due to an increase in obligations under securities lending agreements, resulting from increased market demand for these investment products.

Total combined trust fund plan net assets as of June 30, 2004 were \$46,738.9 million, which is an increase of \$5,161.4 million or 12% over the last fiscal year.

Analysis of Changes in Net Assets – Fiduciary Funds

Changes in Net Assets	Fiscal Year 2004	(dollars in millions)		
		Fiscal Year 2003	Increase (Decrease) Amount	Increase (Decrease) Percentage
Additions				
Employer Contributions	\$174.1	\$166.0	\$8.1	5%
Member Contributions	502.2	427.5	74.7	17%
State Contributions	26.7	22.7	4.0	18%
Participant Contributions	147.6	135.9	11.7	9%
Net Investment Income	6,429.1	1,552.1	4,877.0	314%
Net Securities Lending Income	0.6	1.9	(1.3)	(68%)
Charges For Services	28.0	27.6	0.4	1%
Transfers from Other Pension Plans	25.4	614.6	(589.2)	(96%)
Other Additions	2.9	1.6	1.3	81%
Total Additions	<u>7,336.6</u>	<u>2,949.9</u>	<u>4,386.7</u>	149%
Deductions				
Benefits	1,940.6	1,855.4	85.2	5%
Refunds of Contributions	183.9	154.1	29.8	19%
Transfers to Other Pension Plans	25.4	614.6	(589.2)	(96%)
Administrative Expenses	25.3	28.8	(3.5)	(12%)
Total Deductions	<u>2,175.2</u>	<u>2,652.9</u>	<u>(477.7)</u>	(18%)
(Decrease)/Increase in Net Assets	<u>\$5,161.4</u>	<u>\$297.0</u>	<u>\$4,864.4</u>	1,638%

Additions to the retirement trust funds primarily consist of contributions from employers, active system members, the state, and investment earnings. Additions to the deferred compensation trust fund primarily consist of participant contributions and investment earnings. Total trust fund additions (excluding transfers) for Fiscal Year 2004 amounted

to \$7,311.2 million, an increase of \$4,975.9 million or 213% over Fiscal Year 2003. This is primarily due to an increase in net investment income, resulting from increased earnings in the U.S., non-U.S. and private equity asset classes.

Deductions to the retirement trust funds primarily consist of the payment of benefits to retirees and beneficiaries, the refund of contributions to former retirement system members, and the cost of administering the retirement systems. Benefit payments to members include both pension and annuity benefits. Expenses for the management of trust funds are incurred by the Washington State Investment Board and funded from earnings on investments. Deductions to the deferred compensation trust fund primarily consist of refunds paid to plan participants and administrative expenses. Total trust fund deductions (excluding transfers) for Fiscal Year 2004 totaled \$2,149.8 million, an increase of \$111.5 million or 5% over Fiscal Year 2003. This is primarily due to an increase in benefits paid to retirees and beneficiaries. Benefit payments increased by 5% as a result of an increase in the number of retirees. Administrative Expenses for Fiscal Year 2004 totaled approximately \$25.3 million, a decrease of 12% from last fiscal year. The decrease in expenses reflects a decrease in project costs, particularly the cost of implementing PERS Plan 3 in Fiscal Year 2003.

Transfers from Other Pension Plans and Transfers to Other Pension Plans represent transfers between the various pension plans administered by DRS. Total transfers for Fiscal Year 2004 amounted to \$25.4 million, a decrease of \$589.2 million or 96% from last fiscal year. The transfers for this fiscal year were lower due to the implementation of PERS Plan 3 in Fiscal Year 2003. The PERS Plan 2 members that opted to transfer to PERS Plan 3 accounted for \$609.2 million of the total transfers during Fiscal Year 2003. Fiscal Year 2004's activity is more representative of routine transfer activity.

Analysis of Net Assets – Governmental Fund

(dollars in thousands)				
Net Assets	Fiscal Year 2004	Fiscal Year 2003	Increase (Decrease) Amount	Increase (Decrease) Percentage
Assets				
Cash and Pooled Investments	\$90	\$87	3	3%
Total Assets	<u>90</u>	<u>87</u>	<u>3</u>	3%
Liabilities				
Due to Other Agencies	2	1	1	100%
Accrued Liabilities	5	5	-	-
Total Liabilities	<u>7</u>	<u>6</u>	<u>1</u>	17%
Total Net Assets	<u>\$83</u>	<u>\$81</u>	<u>\$2</u>	2%

Governmental fund total assets as of June 30, 2004 were \$90,000, and were almost entirely comprised of cash. This is an increase of \$3,000 over the last fiscal year and is primarily due to an increase in the amount of cash on hand at year end.

Governmental fund total liabilities as of June 30, 2004 were \$7,000 and were mostly comprised of accrued salaries and administrative costs. Total liabilities increased by \$1,000 or 17% over the last fiscal year due to an increase in the amount of payments due to other agencies.

Analysis of Changes in Net Assets – Governmental Fund

(dollars in thousands)				
Changes in Net Assets	Fiscal Year 2004	Fiscal Year 2003	Increase (Decrease) Amount	Increase (Decrease) Percentage
Revenues				
Charges For Services	\$179	\$181	\$(2)	(1%)
Total Revenues	<u>179</u>	<u>181</u>	<u>\$(2)</u>	(1%)
Expenses				
Administrative Expenses	177	181	(4)	(2%)
(Decrease)/ Increase in Net Assets	<u>\$2</u>	<u>\$0</u>	<u>\$2</u>	-

Governmental fund revenues primarily consist of charges for services. DRS bills state agencies with participating employees a percentage of the payroll taxes saved by the agency and uses these amounts (charges for services) to operate the program. Total governmental fund revenues for Fiscal Year 2004 amounted to \$179,000, a decrease of \$2,000 or 1% from Fiscal Year 2003. This was due to a decrease in the amount of charges for services.

The only expenses for the governmental fund are for the cost of administering the program. Administrative expenses for this fund include personnel expenses, goods and services, travel, and other miscellaneous expenses. Administrative Expenses for Fiscal Year 2004 totaled \$177,000, a decrease of \$4,000 or 2% from last fiscal year. This was primarily due to a decrease in the amount of personnel expenses offset in part by an increase in the amount of expenses for goods and services.

CAPITAL ASSETS

DRS' investment in capital assets for its fiduciary activities as of June 30, 2004, amounts to \$2.8 million, with accumulated depreciation of \$1.7 million, leaving a net book value of \$1.1 million. This amount represents a decrease of 14% from last year, which was mainly due to an increase in accumulated depreciation. This investment in capital assets includes furnishings and equipment, and improvements other than buildings. Additional information on DRS' capital assets can be found in section H of Note 1 to the financial statements.

LONG-TERM OBLIGATIONS

At year-end, DRS had \$1.2 million in outstanding general long-term obligations, which represented a 6% decrease from the prior year. These long-term obligations represent DRS' liability for accumulated annual and sick leave. Additional information on DRS' long-term debt obligations can be found in section J of Note 1 to the financial statements.

CONTACTING DRS' FINANCIAL MANAGEMENT

This financial report is designed to provide a general overview of DRS' finances. If you have questions about this report or need additional financial information, contact the Department of Retirement Systems' Administrative Services Division, P. O. Box 48380, Olympia, WA 98504-8380.

Financial Statements

Statement of Plan Net Assets Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund As of June 30, 2004 (page 1 of 4) (expressed in thousands)

	Pension Trust				
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution
ASSETS					
Cash and Pooled Investments	\$ 10,161	\$ 4,820	\$ 56	\$ 1,046	\$ 776
Receivables					
Due from Other Governments	4,625	7,681	2,824	1,289	3,864
Member Accounts Receivable (Net of Allowance)	584	66	-	1	-
Interest and Dividends	27,032	31,170	1,245	4,422	1,277
Investment Trades Pending Receivable - Short Term	14,025	16,196	647	2,297	664
Due from Pension Funds	531	708	4,050	895	3,954
Due from Other Washington State Agencies	5	5	-	1	-
Other Receivables - Short Term	1	1	-	-	-
Total Receivables	<u>46,803</u>	<u>55,827</u>	<u>8,766</u>	<u>8,905</u>	<u>9,759</u>
Capital Assets, net of depreciation	<u>251</u>	<u>268</u>	<u>-</u>	<u>23</u>	<u>-</u>
Investments, Noncurrent					
Equity in CTF	9,889,662	11,420,081	456,363	1,619,500	467,861
Money Market Investments	1,334	4,979	199	2,649	765
Other Noncurrent Investments	1,805	347	394,938	276	189,624
Total Investments, Noncurrent	<u>9,892,801</u>	<u>11,425,407</u>	<u>851,500</u>	<u>1,622,425</u>	<u>658,250</u>
Other Assets	<u>275</u>	<u>295</u>	<u>-</u>	<u>25</u>	<u>-</u>
TOTAL ASSETS	<u>9,950,291</u>	<u>11,486,617</u>	<u>860,322</u>	<u>1,632,424</u>	<u>668,785</u>
LIABILITIES					
Obligations under Security Lending Agreements	705,977	813,443	32,469	115,549	33,287
Accounts Payable	7,529	2,654	87	396	89
Investment Trades Pending Payable - Short Term	10,910	12,598	503	1,787	516
Due to Other Governments	5,225	566	-	66	-
Due to Pension Funds	201	4,948	139	4,186	851
Due to Other Washington State Agencies	82	76	-	7	-
Deposits Payable - Short Term	2	1	-	-	-
Other Short-Term Liabilities	1	1	-	-	-
Other Long-Term Obligations	275	295	-	25	-
Accrued Salaries	120	129	-	11	-
Deferred Revenue	451	345	-	3	-
TOTAL LIABILITIES	<u>730,773</u>	<u>835,056</u>	<u>33,198</u>	<u>122,030</u>	<u>34,743</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS					
(Schedules of funding progress for pension benefits are presented beginning on page 67.)	\$ <u>9,219,518</u>	\$ <u>10,651,561</u>	\$ <u>827,124</u>	\$ <u>1,510,394</u>	\$ <u>634,042</u>
The accompanying notes are an integral part of this statement.					

Financial Statements

Statement of Plan Net Assets Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund As of June 30, 2004 (page 2 of 4) (expressed in thousands)

	Pension Trust				
	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1	LEOFF Plan 2
ASSETS					
Cash and Pooled Investments	\$ 8,520	\$ 2,753	\$ 2,931	\$ 3,960	\$ 1,944
Receivables					
Due from Other Governments	3,827	3,068	15,177	-	5,603
Member Accounts Receivable (Net of Allowance)	338	34	-	64	42
Interest and Dividends	22,874	10,950	3,464	13,805	8,536
Investment Trades Pending Receivable - Short Term	11,866	5,687	1,799	7,166	4,434
Due from Pension Funds	457	3,617	12,243	264	120
Due from Other Washington State Agencies	4	3	-	3	1
Other Receivables - Short Term	1	-	-	-	-
Total Receivables	<u>39,367</u>	<u>23,359</u>	<u>32,683</u>	<u>21,302</u>	<u>18,736</u>
Capital Assets, net of depreciation	<u>215</u>	<u>120</u>	<u>-</u>	<u>125</u>	<u>58</u>
Investments, Noncurrent					
Equity in CTF	8,367,387	4,010,236	1,268,662	5,052,884	3,126,293
Money Market Investments	11,026	8,242	2,607	512	7,404
Other Noncurrent Investments	1,398	699	1,062,272	716	200
Total Investments, Noncurrent	<u>8,379,811</u>	<u>4,019,177</u>	<u>2,333,541</u>	<u>5,054,112</u>	<u>3,133,897</u>
Other Assets	<u>236</u>	<u>132</u>	<u>-</u>	<u>137</u>	<u>63</u>
TOTAL ASSETS	<u>8,428,149</u>	<u>4,045,541</u>	<u>2,369,155</u>	<u>5,079,636</u>	<u>3,154,698</u>
LIABILITIES					
Obligations under Security Lending Agreements	597,186	286,279	90,261	360,488	222,753
Accounts Payable	5,729	1,126	241	2,570	646
Investment Trades Pending Payable - Short Term	9,231	4,424	1,400	5,574	3,449
Due to Other Governments	4,511	89	-	39	-
Due to Pension Funds	199	12,756	3,372	50	164
Due to Other Washington State Agencies	66	33	-	34	17
Deposits Payable - Short Term	-	-	-	-	-
Other Short-Term Liabilities	1	-	-	-	-
Other Long-Term Obligations	236	132	-	137	63
Accrued Salaries	102	57	-	60	28
Deferred Revenue	448	144	-	1	7
TOTAL LIABILITIES	<u>617,709</u>	<u>305,040</u>	<u>95,274</u>	<u>368,953</u>	<u>227,127</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS					
(Schedules of funding progress for pension benefits are presented beginning on page 67.)	\$ <u>7,810,440</u>	\$ <u>3,740,501</u>	\$ <u>2,273,881</u>	\$ <u>4,710,683</u>	\$ <u>2,927,571</u>

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Plan Net Assets Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund As of June 30, 2004 (page 3 of 4) (expressed in thousands)

	Pension Trust				
	WSPRS Plan 1/2	JRS	JUDGES	JRA Defined Contribution	Deferred Compensation
ASSETS					
Cash and Pooled Investments	\$ 998	\$ 525	\$ 4,360	\$ 6	\$ 4,621
Receivables					
Due from Other Governments	55	15	-	-	-
Member Accounts Receivable (Net of Allowance)	-	-	-	-	1,107
Interest and Dividends	1,944	4	4	-	4
Investment Trades Pending Receivable - Short Term	1,010	-	-	-	-
Due from Pension Funds	31	-	-	-	-
Due from Other Washington State Agencies	-	-	-	-	-
Other Receivables - Short Term	-	-	-	-	-
Total Receivables	<u>3,040</u>	<u>19</u>	<u>4</u>	<u>-</u>	<u>1,111</u>
Capital Assets, net of depreciation	<u>16</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investments, Noncurrent					
Equity in CTF	711,795	-	-	-	-
Money Market Investments	301	4,338	-	-	-
Other Noncurrent Investments	<u>145</u>	<u>97</u>	<u>760</u>	<u>12,949</u>	<u>1,742,132</u>
Total Investments, Noncurrent	<u>712,241</u>	<u>4,435</u>	<u>760</u>	<u>12,949</u>	<u>1,742,132</u>
Other Assets	<u>18</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
TOTAL ASSETS	<u>716,313</u>	<u>4,979</u>	<u>5,124</u>	<u>12,955</u>	<u>1,747,864</u>
LIABILITIES					
Obligations under Security Lending Agreements	50,822	98	760	1	701
Accounts Payable	404	111	9	-	31
Investment Trades Pending Payable - Short Term	785	-	-	-	-
Due to Other Governments	151	29	3	-	-
Due to Pension Funds	4	-	-	-	-
Due to Other Washington State Agencies	5	-	-	-	12
Deposits Payable - Short Term	-	-	-	-	-
Other Short-Term Liabilities	-	-	-	-	15
Other Long-Term Obligations	18	-	-	-	-
Accrued Salaries	8	-	-	-	35
Deferred Revenue	-	-	-	-	-
TOTAL LIABILITIES	<u>52,197</u>	<u>238</u>	<u>772</u>	<u>1</u>	<u>794</u>
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS					
(Schedules of funding progress for pension benefits are presented beginning on page 67.)	\$ <u>664,116</u>	\$ <u>4,741</u>	\$ <u>4,352</u>	\$ <u>12,954</u>	\$ <u>1,747,070</u>

The accompanying notes are an integral part of this statement.

Financial Statements

Statement of Plan Net Assets Pension and Other Employee Benefit Trust Funds by Plan and Agency Fund As of June 30, 2004 (page 4 of 4) (expressed in thousands)

	Agency Dependent Care	Totals	
		June 30, 2004	June 30, 2003
ASSETS			
Cash and Pooled Investments	\$ 474	\$ 47,951	\$ 37,047
Receivables			
Due from Other Governments	-	48,028	40,477
Member Accounts Receivable (Net of Allowance)	-	2,236	2,760
Interest and Dividends	-	126,731	110,979
Investment Trades Pending Receivable - Short Term	-	65,791	23,316
Due from Pension Funds	-	26,870	266,903
Due from Other Washington State Agencies	-	22	14
Other Receivables - Short Term	-	3	3
Total Receivables	-	269,681	444,452
Capital Assets, net of depreciation	-	1,076	1,245
Investments, Noncurrent			
Equity in CTF	-	46,390,724	39,991,792
Money Market Investments	-	44,356	40,899
Other Noncurrent Investments	-	3,408,358	2,804,362
Total Investments, Noncurrent	-	49,843,438	42,837,053
Other Assets	-	1,181	1,253
TOTAL ASSETS	474	50,163,327	43,321,050
LIABILITIES			
Obligations under Security Lending Agreements	-	3,310,074	1,435,211
Accounts Payable	-	21,622	20,154
Investment Trades Pending Payable - Short Term	-	51,177	6,885
Due to Other Governments	-	10,679	9,887
Due to Pension Funds	-	26,870	266,903
Due to Other Washington State Agencies	-	332	775
Deposits Payable - Short Term	-	3	3
Other Short-Term Liabilities	474	492	869
Other Long-Term Obligations	-	1,181	1,253
Accrued Salaries	-	550	570
Deferred Revenue	-	1,399	1,050
TOTAL LIABILITIES	474	3,424,379	1,743,560
NET ASSETS HELD IN TRUST FOR PENSION AND OTHER BENEFITS			
(Schedules of funding progress for pension benefits are presented beginning on page 67.)	\$ 0	\$ 46,738,948	\$ 41,577,490

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2004 (page 1 of 4)
(expressed in thousands)

	Pension Trust				
	PERS Plan 1	PERS Plan 2/3	PERS Plan 3 Defined Contribution	SERS Plan 2/3	SERS Plan 3 Defined Contribution
ADDITIONS					
Retirement Contributions					
Employer	\$ 22,789	\$ 69,377	\$ -	\$ 9,076	\$ -
Plan Member	57,196	60,953	53,208	3,501	43,833
State	-	-	-	-	-
Plan Member Restorations	4,639	2,917	-	291	-
Total Retirement Contributions	<u>84,624</u>	<u>133,247</u>	<u>53,208</u>	<u>12,868</u>	<u>43,833</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income					
Net Appreciation (Depreciation) in Fair Value of Investments	1,113,199	1,225,571	86,157	171,620	68,587
Interest	115,078	127,101	6,157	18,113	5,626
Dividends	95,677	106,481	4,371	14,938	4,449
Less: Investment Expense	(4,925)	(5,081)	(814)	(708)	(526)
Net Investment Income	<u>1,319,029</u>	<u>1,454,072</u>	<u>95,871</u>	<u>203,963</u>	<u>78,136</u>
Securities Lending Income					
Securities Lending Income	6,800	7,851	314	1,113	322
Less: Costs of Lending Securities	(6,674)	(8,014)	-	(1,408)	-
Net Securities Lending Income	<u>126</u>	<u>(163)</u>	<u>314</u>	<u>(295)</u>	<u>322</u>
Charges For Services	5,451	6,761	696	1,258	270
Transfers from Other Pension Plans	310	251	21,143	1,631	484
Miscellaneous	<u>57</u>	<u>71</u>	<u>-</u>	<u>13</u>	<u>-</u>
TOTAL ADDITIONS	<u>1,409,597</u>	<u>1,594,239</u>	<u>171,232</u>	<u>219,438</u>	<u>123,045</u>
DEDUCTIONS					
Benefits	828,765	86,174	-	6,692	-
Refunds of Contributions	5,628	27,082	26,581	2,025	12,364
Annuity Payments	-	-	-	-	-
Transfers to Other Pension Plans	4	22,918	251	545	290
Administrative Expenses	4,917	5,779	523	1,080	226
TOTAL DEDUCTIONS	<u>839,314</u>	<u>141,953</u>	<u>27,355</u>	<u>10,342</u>	<u>12,880</u>
NET INCREASE (DECREASE)	<u>570,283</u>	<u>1,452,286</u>	<u>143,877</u>	<u>209,096</u>	<u>110,165</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS					
Beginning of Year: July 1	<u>8,649,235</u>	<u>9,199,275</u>	<u>683,247</u>	<u>1,301,298</u>	<u>523,877</u>
End of Year: June 30	<u>\$ 9,219,518</u>	<u>\$ 10,651,561</u>	<u>\$ 827,124</u>	<u>\$ 1,510,394</u>	<u>\$ 634,042</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2004 (page 2 of 4)
(expressed in thousands)

	Pension Trust			
	TRS Plan 1	TRS Plan 2/3	TRS Plan 3 Defined Contribution	LEOFF Plan 1
ADDITIONS				
Retirement Contributions				
Employer	\$ 11,385	\$ 29,921	\$ -	\$ 1
Plan Member	42,706	3,108	173,052	-
State	-	-	-	-
Plan Member Restorations	2,673	611	-	85
Total Retirement Contributions	<u>56,764</u>	<u>33,640</u>	<u>173,052</u>	<u>86</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	938,287	424,260	281,619	561,324
Interest	97,155	44,869	14,711	58,037
Dividends	80,722	36,953	11,967	48,395
Less: Investment Expense	(4,150)	(1,726)	(2,157)	(2,440)
Net Investment Income	<u>1,112,014</u>	<u>504,356</u>	<u>306,140</u>	<u>665,316</u>
Securities Lending Income				
Securities Lending Income	5,753	2,757	872	3,474
Less: Costs of Lending Securities	(5,647)	(3,562)	-	(3,410)
Net Securities Lending Income	<u>106</u>	<u>(805)</u>	<u>872</u>	<u>64</u>
Charges For Services	4,617	3,504	293	2,782
Transfers from Other Pension Plans	147	439	892	-
Miscellaneous	<u>48</u>	<u>39</u>	<u>(1)</u>	<u>29</u>
TOTAL ADDITIONS	<u>1,173,696</u>	<u>541,173</u>	<u>481,248</u>	<u>668,277</u>
DEDUCTIONS				
Benefits	640,006	13,416	-	272,118
Refunds of Contributions	1,792	2,858	25,932	133
Annuity Payments	52,237	-	-	-
Transfers to Other Pension Plans	-	1,003	380	27
Administrative Expenses	3,926	2,940	250	2,450
TOTAL DEDUCTIONS	<u>697,961</u>	<u>20,217</u>	<u>26,562</u>	<u>274,728</u>
NET INCREASE (DECREASE)	<u>475,735</u>	<u>520,956</u>	<u>454,686</u>	<u>393,549</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	<u>7,334,705</u>	<u>3,219,545</u>	<u>1,819,195</u>	<u>4,317,134</u>
End of Year: June 30	<u>\$ 7,810,440</u>	<u>\$ 3,740,501</u>	<u>\$ 2,273,881</u>	<u>\$ 4,710,683</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2004 (page 3 of 4)
(expressed in thousands)

	Pension Trust			
	LEOFF Plan 2	WSPRS Plan 1/2	JRS	Judges
ADDITIONS				
Retirement Contributions				
Employer	\$ 30,773	\$ 1	\$ 197	\$ -
Plan Member	50,698	1,322	196	-
State	20,193	-	5,995	500
Plan Member Restorations	625	56	-	-
Total Retirement Contributions	<u>102,289</u>	<u>1,379</u>	<u>6,388</u>	<u>500</u>
Participant Contributions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	330,557	78,212	(5)	(46)
Interest	34,306	8,090	64	73
Dividends	28,836	6,760	-	-
Less: Investment Expense	(1,827)	(335)	(5)	(7)
Net Investment Income	<u>391,872</u>	<u>92,727</u>	<u>54</u>	<u>20</u>
Securities Lending Income				
Securities Lending Income	2,149	489	-	-
Less: Costs of Lending Securities	(2,110)	(480)	-	-
Net Securities Lending Income	<u>39</u>	<u>9</u>	<u>-</u>	<u>-</u>
Charges For Services	1,728	392	3	3
Transfers from Other Pension Plans	-	121	-	-
Miscellaneous	<u>18</u>	<u>4</u>	<u>-</u>	<u>-</u>
TOTAL ADDITIONS	<u>495,946</u>	<u>94,632</u>	<u>6,445</u>	<u>523</u>
DEDUCTIONS				
Benefits	6,043	25,724	8,404	685
Refunds of Contributions	5,720	303	-	-
Annuity Payments	-	-	-	-
Transfers to Other Pension Plans	-	-	-	-
Administrative Expenses	1,490	347	2	2
TOTAL DEDUCTIONS	<u>13,253</u>	<u>26,374</u>	<u>8,406</u>	<u>687</u>
NET INCREASE (DECREASE)	<u>482,693</u>	<u>68,258</u>	<u>(1,961)</u>	<u>(164)</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	2,444,878	595,858	6,702	4,516
End of Year: June 30	<u>\$ 2,927,571</u>	<u>\$ 664,116</u>	<u>\$ 4,741</u>	<u>\$ 4,352</u>

The accompanying notes are an integral part of this statement.

Statement of Changes in Plan Net Assets
Pension Trust Funds by Plan
For the Year Ended June 30, 2004 (page 4 of 4)
(expressed in thousands)

	Pension Trust		Totals	
	JRA Defined Contribution	Deferred Compensation	June 30, 2004	June 30, 2003
ADDITIONS				
Retirement Contributions				
Employer	\$ 570	\$ -	\$ 174,090	\$ 166,059
Plan Member	570	-	490,343	418,091
State	-	-	26,688	22,654
Plan Member Restorations	-	-	11,897	9,409
Total Retirement Contributions	<u>1,140</u>	<u>-</u>	<u>703,018</u>	<u>616,213</u>
Participant Contributions	<u>-</u>	<u>147,660</u>	<u>147,660</u>	<u>135,901</u>
Investment Income				
Net Appreciation (Depreciation) in Fair Value of Investments	1,131	160,210	5,440,683	610,163
Interest	221	28,327	557,928	635,804
Dividends	102	17,677	457,328	348,057
Less: Investment Expense	-	(2,114)	(26,815)	(41,877)
Net Investment Income	<u>1,454</u>	<u>204,100</u>	<u>6,429,124</u>	<u>1,552,147</u>
Securities Lending Income				
Securities Lending Income	-	-	31,894	50,155
Less: Costs of Lending Securities	-	-	(31,305)	(48,276)
Net Securities Lending Income	<u>-</u>	<u>-</u>	<u>589</u>	<u>1,879</u>
Charges For Services	-	206	27,964	27,579
Transfers from Other Pension Plans	-	-	25,418	614,613
Miscellaneous	<u>18</u>	<u>2,578</u>	<u>2,874</u>	<u>1,571</u>
TOTAL ADDITIONS	<u>2,612</u>	<u>354,544</u>	<u>7,336,647</u>	<u>2,949,903</u>
DEDUCTIONS				
Benefits	282	-	1,888,309	1,772,873
Refunds of Contributions	-	73,485	183,903	154,160
Annuity Payments	-	-	52,237	82,497
Transfers to Other Pension Plans	-	-	25,418	614,613
Administrative Expenses	16	1,373	25,321	28,793
TOTAL DEDUCTIONS	<u>298</u>	<u>74,858</u>	<u>2,175,188</u>	<u>2,652,936</u>
NET INCREASE (DECREASE)	<u>2,314</u>	<u>279,686</u>	<u>5,161,459</u>	<u>296,967</u>
NET ASSETS HELD IN TRUST FOR PENSION BENEFITS				
Beginning of Year: July 1	<u>10,640</u>	<u>1,467,384</u>	<u>41,577,489</u>	<u>41,280,523</u>
End of Year: June 30	<u>\$ 12,954</u>	<u>\$ 1,747,070</u>	<u>\$46,738,948</u>	<u>\$41,577,490</u>

The accompanying notes are an integral part of this statement.

Balance Sheet/Statement of Net Assets
Special Revenue Fund
As of June 30, 2004
(expressed in thousands)

Dependent Care Administrative Fund			
	Balance Sheet	Adjustments	Statement of Net Assets
ASSETS			
Cash and Pooled Investments	\$ 90	\$ -	\$ 90
TOTAL ASSETS	90	-	90
LIABILITIES			
Due to Other Washington State Agencies	2	-	2
Accrued Salaries	5	-	5
TOTAL LIABILITIES	7	-	7
FUND BALANCE/NET ASSETS:			
Fund Balance:			
Unreserved, Reported in Special Revenue Funds	83	(83)	-
Total Fund Balance	83	(83)	-
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 90</u>		
Net Assets:			
Unrestricted		83	83
TOTAL NET ASSETS		<u>\$ 0</u>	<u>\$ 83</u>

The accompanying notes are an integral part of this statement.

Statement of Revenues, Expenditures and Changes in Fund Balance/Statement of Activities
Special Revenue Fund
For the Year Ended June 30, 2004
(expressed in thousands)

REVENUES	Dependent Care Administrative Fund		
	Statement of Revenues, Expenditures and Changes in Fund Balance	Adjustments	Statement of Activities
Charges for Services	\$ 179	\$ -	\$ 179
TOTAL REVENUES	179	-	179
EXPENDITURES/EXPENSES			
Current:			
Personnel Services	119	-	119
Goods and Services	56	-	56
Miscellaneous	2	-	2
Total Expenditures/Expenses	<u>177</u>	<u>-</u>	<u>177</u>
TOTAL EXPENDITURES/EXPENSES	177	-	177
EXCESS (DEFICIENCY) OF REVENUES OVER (UNDER) EXPENDITURES	2	(2)	-
CHANGE IN NET ASSETS	-	2	2
FUND BALANCE/NET ASSETS:			
Beginning of Year: July 1	81	0	81
End of Year: June 30	\$ <u>83</u>	\$ <u>0</u>	\$ <u>83</u>

The accompanying notes are an integral part of this statement.

Notes to the Financial Statements

For the Fiscal Year Ended June 30, 2004

Note 1: Summary of Significant Accounting Policies and Plan Asset Matters

A. Reporting Entity

The Department of Retirement Systems (DRS) is a part of the primary government of the state of Washington. The Governmental Accounting Standards Board has developed criteria relating to elements of financial accountability to be used to determine the reporting entity. Financial accountability is manifest when the primary government appoints a voting majority of an organization's governing body and is able to impose its will on that organization or there is a potential for the organization to provide specific financial benefits to or impose specific financial burdens on the primary government. The primary government may be financially accountable if an organization is fiscally dependent on the primary government regardless of whether the organization has a separately elected governing board, a governing board appointed by a higher level of government, or a jointly appointed board. An organization is fiscally dependent if it is unable to determine its budget without another government having the substantive authority to approve or modify that budget, or to set rates or charges without substantive approval by another government. Based on this criteria, DRS is considered part of the state of Washington financial reporting entity and is included in the state's comprehensive annual financial report as the administrator of the pension trust funds. Copies of the state of Washington's Comprehensive Annual Financial Report may be obtained by writing to:

Washington State Office of Financial Management
300 Insurance Building
P.O. Box 43113
Olympia, WA 98504-3113

The state of Washington, through DRS, administers seven retirement systems for public employees of the state and political subdivisions: the Public Employees' Retirement

System, the School Employees' Retirement System, the Teachers' Retirement System, the Law Enforcement Officers' and Fire Fighters' Retirement System, the Washington State Patrol Retirement System, the Judicial Retirement System, and the Judges' Retirement Fund. The Director of DRS is appointed by the Governor. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems. The members of the public retirement systems together with their employers and the state provide funding for all costs of the systems based upon actuarial valuations. The state establishes benefit levels and approves the actuarial assumptions used in determining contribution levels. Based upon these criteria, DRS views itself as part of the state of Washington's primary government.

B. Basic Financial Statements

Separate financial statements are provided for the fiduciary funds and the governmental fund.

Fiduciary funds report assets held in a trustee or agency capacity for others and therefore cannot be used to support the government's own programs. DRS' fiduciary funds include the retirement pension trust funds, the deferred compensation trust fund, and the dependent care assistance program agency fund. The statements presented for the fiduciary funds include a Statement of Plan Net Assets and a Statement of Changes in Plan Net Assets. The statements provide a separate column for each plan administered by DRS. The Statement of Plan Net Assets includes information about the assets, liabilities, and net assets for each plan. The Statement of Changes in Plan Net Assets includes information about the additions to, deductions from, and net increase (or decrease) in net assets for each plan for the year.

DRS' governmental fund is a special revenue fund used to account for the administrative revenues and operating expenditures incurred in administering the dependent care program. Special revenue funds account for the proceeds of specific revenue sources that are legally restricted to expenditures for specified purposes. The statements presented for the special revenue fund include a Balance Sheet/Statement of Net Assets and a Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities. The statements for the special revenue fund are presented following the statements for the fiduciary funds because the fiduciary funds are the main focus of DRS. Since the special revenue fund is a minor administrative fund for DRS, showing this fund on a statement preceding the fiduciary fund statements would improperly put more focus on it.

The Balance Sheet/Statement of Net Assets for the special revenue fund has three separate columns: Balance Sheet, Adjustments, and Statement of Net Assets. The Balance Sheet column presents the assets, liabilities, and fund balance using the current financial resources measurement focus and the modified accrual basis of accounting. The Statement of Net Assets column presents the difference between assets and liabilities as net assets and uses the economic resources measurement focus and accrual basis of accounting. The Adjustments column contains the reconciliation between these two different bases of accounting.

The Statement of Revenues, Expenditures, and Changes in Fund Balance/Statement of Activities for the special revenue fund has three separate columns: Statement of Revenues, Expenditures, and Changes in Fund Balance; Adjustments; and Statement of Activities. The Statement of Revenues, Expenditures, and Changes in Fund Balance column presents the inflows, outflows, and balances of current financial resources using the current financial resources measurement focus and the modified accrual basis of accounting. The Statement of Activities is presented using the economic resources measurement focus and accrual basis of accounting. The Adjustments column contains the reconciliation between these two different bases of accounting.

C. Measurement Focus and Basis of Accounting

DRS' financial statements have been prepared in conformity with generally accepted accounting principles (GAAP).

The retirement plans are accounted for in pension trust funds using the flow of economic resources measurement focus and the accrual basis of accounting. Plan member contributions are recognized as revenues in the period in which the contributions are due. Employer contributions to each plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of each plan.

The deferred compensation plan is accounted for in a pension trust fund using the flow of economic resources measurement focus and the accrual basis of accounting. Participant contributions are recognized as revenues in the period in which the contributions are due. Refunds are recognized when due and payable in accordance with the terms of the plan. DRS maintains an administrative fund to account for the administrative revenues and operating expenditures incurred in administering the deferred compensation plan. Since these costs are incurred in the administration of the deferred compensation plan, they have been reported within the deferred compensation plan.

The dependent care assistance program is accounted for in two separate funds. The administrative revenues and operating expenditures incurred in administering the dependent care program are accounted for in the dependent care administrative fund. This fund is classified as a special revenue fund using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recorded when they are both measurable and available to finance current expenditures of the fund. The dependent care salary reduction plan is classified as an agency fund and is accounted for using the accrual basis of accounting. Agency funds are custodial in nature and do not measure the results of operations or have a measurement focus.

D. Method Used to Value Investments

Investments are presented at fair value. The fair value of investments is based on published market prices and quotations from major investment brokers at current exchange rates, as available. Privately held mortgages have been valued at cost which approximates fair market value. The fair value of real estate investments has been estimated based on independent appraisals. Venture capital and leveraged buy out investments are determined by independent investment advisors based on an analysis of the audited financial statements of the underlying partnerships. The pension funds have no investments of any commercial or industrial organization whose market value exceeds five percent or more of each plan's net assets.

E. Allocation

DRS maintains an administrative fund to account for the administrative additions and deductions incurred in administering the pension plans (excluding any fees incurred while protecting the pension plans). All additions received are based on a legislatively approved percent of employer contributions. These additions and deductions have been allocated to the pension plans based on asset balance.

DRS maintains a general capital assets fund to account for the capital assets incurred in administering the pension plans. These capital assets have been allocated to the pension plans based on asset balance. DRS also maintains a general long-term obligation fund to account for accumulated compensated absences incurred in administering the pension plans. These general long-term obligations have also been allocated to the pension plans based on asset balance.

F. Deposits, Investments, and Securities Lending:

Deposits: DRS' deposits are managed by the Office of the State Treasurer (OST) and are entirely insured by the Federal Deposit Insurance Corporation (FDIC) and by the Washington Public Deposit Protection Commission (PDPC). State law (chapter 43.84.080 RCW) specifies that whenever there is a fund or cash balance in the state treasury more than sufficient to meet the current expenditures properly payable therefrom, the OST may invest or reinvest such portion of

such funds or balances as the OST deems expedient. Statute authorizes the OST to buy and sell the following types of instruments: U.S. Government and Agency securities, banker's acceptances, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above. DRS receives its proportionate share of investment earnings from surplus balances in the state treasury based upon its daily balance for the period. DRS' deposits are separately displayed on the Statement of Plan Net Assets as cash and pooled investments.

Governmental Accounting Standards Board (GASB) Statement Number 3 requires governmental entities to categorize deposits for the purpose of giving an indication of the level of risk assumed by the entity at year end. The three categories of risk are:

- 1) Insured or collateralized with securities held by DRS or its agent in the name of DRS.
- 2) Collateralized with securities held by the pledging financial institutions trust department or agent in the name of DRS.
- 3) Uncollateralized or collateralized with securities held by the pledging financial institutions or by its trust department or agent, but not in the name of DRS.

As of June 30, 2004, the carrying amount of DRS' cash and pooled investments is \$47.5 million for the pension trust funds, \$0.5 million for the dependent care agency fund, and \$90,000 for the dependent care special revenue fund, all of which represents category one risk.

Investments: The Washington State Investment Board (WSIB) has been authorized by statute as having the investment management responsibility for pension and deferred compensation funds. The WSIB is authorized to invest as provided by statute (chapter 43.33A RCW) and WSIB policy. The WSIB is authorized and invests in the following: U.S. Treasury Bills; discount notes; repurchase agreements; reverse repurchase agreements; banker's acceptances; commercial paper; guaranteed investment contracts; U.S. Gov-

ernment and Agency (government sponsored corporations eligible for collateral purposes at the Federal Reserve) securities; non-dollar bonds; investment grade corporate bonds; non-investment grade corporate bonds; publicly traded mortgage-backed securities; privately placed mortgages; private placements of corporate debt; U.S. and foreign common stock; U.S. preferred stock; convertible securities; private equity including but not limited to: investment corporations, partnerships, and limited liability companies for venture capital, leveraged buy-outs, real estate, or other forms of private equity; asset backed securities; and derivative securities including futures, options, options on futures, forward contracts, and swap transactions.

WSIB is authorized to utilize various derivative financial instruments, including mortgage-backed securities, financial futures, forward contracts, interest rate and equity swaps, and options to manage its exposure to fluctuations in interest and currency rates while increasing portfolio returns. Derivative transactions involve, to varying degrees, market and credit risk. WSIB mitigates market risks arising from derivative transactions by requiring collateral in cash and investments to be maintained equal to the securities positions outstanding, and thereby prohibiting the use of leverage or speculation. Credit risks arising from derivative transactions are mitigated by selecting and monitoring creditworthy counterparties and collateral issuers.

Consistent with the WSIB authority to invest in derivatives, international active equity managers may make limited investments in financial futures, forward contracts or other derivative securities to manage exposure to currency rate risk and equitize excess cash holdings. No such derivative securities were held as of June 30, 2004 or 2003. Domestic and foreign passive equity index fund managers may also utilize various derivative securities to manage exposure to risk and increase portfolio returns. Information on the extent of use, and holdings of derivative securities by passive equity index fund managers is unavailable. At June 30, 2004, the only derivative securities held directly by WSIB were collateralized mortgage obligations of \$1.39 billion.

The fees paid by the WSIB are accounted for as a reduction of investment income to the trust funds. These fees include investment management fees and commissions, investment consultant fees, and legal fees. As of June 30, 2004, total investment management fees were \$58.1 million. For a detailed disclosure, refer to the Schedule of Investment Expenses in the Financial Section of this report.

GASB Statement Number 3 requires governmental entities to categorize investments for the purpose of giving an indication of the levels of risk assumed by the entity at year end. The three categories of risk are:

- 1) Insured or registered, or securities held by DRS or its agent in the name of DRS.
- 2) Uninsured and unregistered with securities held by the counterparty's trust department or agent in the name of DRS.
- 3) Uninsured and unregistered with securities held by the counterparty, or its trust department or agent, but not in the name of DRS.

Certain investment types in DRS' portfolio cannot be categorized within the guidelines established by GASB Statement Number 3. These investments total approximately \$33.6 billion in both carrying value and fair value. DRS' investments are classified in three categories of risk to give an indication of the level of risk assumed by DRS as of year end. The table on page 47 presents the carrying value and fair value of the investments by type, as well as deposits, as of June 30, 2004.

There were approximately \$551.4 million repurchase agreements outstanding at June 30, 2004. Repurchase agreements are collateralized at 102 percent. The collateral is priced daily and held by DRS' agent in DRS' name. Repurchase agreements outstanding as of June 30, 2004 are typical of the level of activity during the year.

State law permits DRS to enter into reverse repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase them in the future at the same price plus

a contract rate of interest. The market value of the securities underlying reverse repurchase agreements normally exceeds the cash received, providing the dealers margin against a decline in market value of the securities. If the dealers default on their obligations to resell these securities to the state or provide securities or cash of equal value, DRS would suffer

an economic loss equal to the difference between the market value plus accrued interest of the underlying securities and the agreement obligation, including accrued interest. There were no reverse repurchase agreements during the year and there were no liabilities outstanding as of June 30, 2004.

Investments by Type on June 30, 2004-Pension Trust Funds (expressed in thousands)

Investment Type	Carrying Value by GASB Categories*			Total Carrying Value	Total Fair Value
	1	2	3		
Asset Backed Securities	\$ 48,352	\$ -	\$ 108,333	\$ 156,685	\$ 156,685
Certificates of Deposit	-	-	810,101	810,101	810,101
Collateralized Mortgage Obligations	1,387,593	-	-	1,387,593	1,387,593
Commercial Paper	-	-	192,491	192,491	192,491
Corporate Bonds-Domestic	2,933,583	-	46,803	2,980,386	2,980,386
Corporate Bonds-Foreign	1,275,990	-	-	1,275,990	1,275,990
Corporate Stock-Domestic	2,101	-	-	2,101	2,101
Corporate Stock-Foreign	3,647,534	-	-	3,647,534	3,647,534
Government Securities-Domestic	346,162	-	226,361	572,523	572,523
Government Securities-Foreign	80,201	-	-	80,201	80,201
Life	32	-	-	32	32
Repurchase Agreements	6,557	-	544,883	551,440	551,440
Variable Rate Notes	-	-	1,365,147	1,365,147	1,365,147
Subtotal for GASB Categories	\$ 9,728,105	\$ -	\$ 3,294,119	\$ 13,022,224	\$ 13,022,224
Investment Type-Unclassified As to Risk					
Commingled Index Funds-Domestic				14,549,211	14,549,211
Commingled Index Funds-Foreign				3,059,625	3,059,625
Currencies				20,157	20,157
Guaranteed Investment Contracts				576,357	576,357
Money Market Funds				1,050,194	1,050,194
Mortgages				1,401,542	1,401,542
Mutual Funds				2,825,411	2,825,411
Private Equity				6,052,840	6,052,840
Real Estate				4,085,388	4,085,388
Subtotal Investment Types-Unclassified As to Risk				33,620,725	33,620,725
Securities on Loan-Domestic				2,866,224	2,866,224
Securities on Loan-Foreign				334,265	334,265
Total Investments-6/30/2004				\$49,843,438	\$49,843,438

* See text for definition of categories.

The WSIB has entered into agreements that commit the DRS pension funds, upon request, to make additional investment purchases up to a stated amount. As of June 30, 2004, the DRS pension funds had the following unfunded investment commitments in millions of dollars:

Private Equity Partnerships	\$4,633.3
Real Estate	\$677.4

Securities Lending: Securities lending management responsibilities as authorized by statute are as follows:

WSIB—State law and Board policy permit the WSIB to participate in securities lending transactions. The Board has entered into an agreement with State Street Bank and Trust to act as agent for the WSIB in securities lending transactions. As State Street Bank and Trust is the custodian bank for the WSIB, it is a counterparty to securities lending transactions. Therefore, cash collateral reinvested by State Street Bank and Trust is reflected as Category 3 for custodial credit risk disclosure purposes.

Securities were loaned and collateralized by the WSIB’s agent with cash and U.S. government securities (exclusive of mortgage backed securities and letters of credit), and irrevocable letters of credit. When the loaned securities were denominated in United States dollars, were securities whose primary trading market was located in the United States or were sovereign debt issued by foreign governments, the collateral requirement was 102 percent of the market value of the securities loaned. When the loaned securities were not denominated in United States dollars or were securities whose primary trading market was not located in the United States, the collateral requirement was 105 percent of the market value of the loaned securities. The collateral held and market value of securities on loan at June 30, 2004, were \$3,300.5 million and \$3,200.5 million, respectively.

During Fiscal Year 2004, securities lending transactions could be terminated on demand by either the WSIB or the borrower. The average term of overall loans was 45 days.

Cash collateral was invested by the WSIB’s agents in securities issued or guaranteed by the U.S. government, the WSIB’s short term investment pool (average weighted maturity of 358 days) or term loans. Because the securities lending agreements were terminable at will, their duration did not generally match the duration of the investments made with the cash collateral. Non-cash collateral could not be pledged or sold absent borrower default. There are no restrictions on the amount of securities that can be lent.

Securities were lent with the agreement that they would be returned in the future for exchange of the collateral. State Street Bank and Trust indemnified the WSIB by agreeing to purchase replacement securities or return the cash collateral in the event a borrower failed to return the loaned securities or pay distributions thereon. State Street Bank and Trust’s responsibilities included performing appropriate borrower and collateral investment credit analyses, demanding adequate types and levels of collateral, and complying with applicable federal regulations concerning securities lending.

During Fiscal Year 2004, there were no significant violations of legal or contractual provisions nor failures by any borrowers to return loaned securities or to pay distributions thereon. Further, the WSIB incurred no losses during Fiscal Year 2004 resulting from a default by either the borrowers or the securities lending agents.

OST—Statute authorizes the OST to buy and sell the following types of instruments: U.S. government and agency securities, banker’s acceptances, commercial paper, and certificates of deposit with qualified public depositories. Securities underlying repurchase and reverse repurchase agreements are limited to those stated above.

The OST has statutory authority to lend its securities to broker-dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The OST has contracted with a third party securities lending agent, The Bank of New York, to lend the OST’s U.S. government and agency securities portfolio. The agent lends

securities for collateral in the form of cash or other securities at 102 percent of the loaned securities value. The collateral for the loans is maintained at 102 percent.

At June 30, 2004, OST has no credit risk exposure to borrowers because the amounts the OST owes borrowers exceeds the amounts that the borrowers owe the OST. The contract with the agent requires it to indemnify the OST if the borrowers fail to return the securities (and if the collateral is inadequate to replace the securities lent) or if the borrower fails to pay OST for income distributions by the securities' issuers while the securities are on loan.

All securities loans can be terminated on demand by either the OST or the borrower. Cash collateral is invested in accordance with the investment guidelines approved by the OST. The OST cannot pledge or sell collateral securities received unless the borrower defaults. Generally, the maturity of the securities on loan is matched with the term of the investment of the cash collateral.

During Fiscal Year 2004, there were no violations of legal or contractual provisions nor any losses resulting from a default by either the borrowers or the securities lending agent.

G. Reserves

Member Reserves: The member reserves reflect the total liability for all contributions made by members. These reserves are increased by employee contributions and interest earnings and are decreased by contributions refunded and contributions transferred to the benefit reserves for current year retirees. The member reserves are considered fully funded.

Because the PERS Plan 3, SERS Plan 3 and TRS Plan 3 defined contribution plans each offer two separate investment programs to members, DRS is required to maintain two separate member reserves for each defined contribution plan. The "PERS Plan 3-WSIB," "SERS Plan 3-WSIB," and "TRS Plan 3-WSIB" reserves account for members who participate in the investment programs offered by the Washington State Investment Board (WSIB). The "PERS Plan 3-SELF," "SERS Plan 3-SELF," and "TRS Plan 3-SELF" reserves ac-

count for members who participate in the self-directed investment offerings established by the Employee Retirement Benefits Board (ERBB).

Member reserves as of June 30, 2004 and 2003 are as follows:

	June 30, 2004	June 30, 2003
	(expressed in thousands)	
PERS Plan 1	\$1,523,446	\$1,588,091
PERS Plan 2/3	3,215,444	3,104,651
PERS Plan 3-WSIB	430,570	347,685
PERS Plan 3-SELF	396,554	335,735
SERS Plan 2/3	208,607	201,567
SERS Plan 3-WSIB	443,001	357,860
SERS Plan 3-SELF	191,041	166,060
TRS Plan 1	1,181,814	1,234,665
TRS Plan 2/3	381,773	370,198
TRS Plan 3-WSIB	1,203,920	954,107
TRS Plan 3-SELF	1,069,962	865,131
LEOFF Plan 1	106,753	117,838
LEOFF Plan 2	915,700	832,078
WSPRS Plan 1/2	52,410	52,299
JRS	5,131	5,345
Judges	-	-
Total Member Reserves	\$11,326,126	\$10,533,310

Benefit Reserves: The benefit reserves reflect the funded liability associated with all retired members of DRS administered systems. These reserves are increased by employer contributions, state contributions, investment earnings, and employee contributions which are attributable to current year retirees. These reserves are decreased by the amounts of pensions actually paid in the current year, interest payments transferred to the member reserves, and administrative expenses in support of the trust funds.

Benefit reserves as of June 30, 2004 and 2003 are as follows:

	June 30, 2004 (expressed in thousands)	June 30, 2003
PERS Plan 1	\$7,692,486	\$7,058,454
PERS Plan 2/3	7,432,224	6,091,959
SERS Plan 2/3	1,301,460	1,099,620
TRS Plan 1	6,625,545	6,097,726
TRS Plan 2/3	3,357,008	2,848,235
LEOFF Plan 1	4,602,142	4,197,977
LEOFF Plan 2	2,011,038	1,612,275
WSPRS Plan 1/2	611,474	543,391
JRS	(389)	1,353
Judges	4,375	4,494
Total Benefit Reserves	\$33,637,363	\$29,555,484

The funded status of each of the benefit reserves is the same as the funded status of each of the respective pension plans. The funded status of the pension plans is shown in the Solvency Test schedules in the Actuarial Section of this report.

H. Capital Assets

All capital assets with a unit cost (including ancillary costs) of \$5,000 or greater are capitalized and reported in the accompanying financial statements. Capital leases with a net present value or fair market value, whichever is less, of \$10,000 or more are capitalized and also included in these financial statements. All purchased capital assets are valued at cost where historical records exist. Donated capital assets are valued at their estimated fair market value on the date of donation. Where necessary, estimates of original cost and fair market value are derived by factoring price levels from the current period to the time of acquisition.

Capital asset costs include the purchase price or construction cost, plus those costs necessary to place the asset in its intended location and condition for use. Normal maintenance and repair costs that do not materially add to the value or extend the life of the asset are not capitalized.

Depreciation is calculated using the straight-line method with estimated useful lives of 5 to 50 years for buildings, and 3 to 50 years for furnishings and equipment, other improvements, and miscellaneous capital assets.

Following is a summary of changes in capital assets for Fiscal Year 2004:

Assets	Beginning Balance	Acquisition/ Increase Depreciation	Disposal	Ending Balance
(expressed in thousands)				
Improvements Other Than Buildings	\$ 531	\$ 23	\$ -	\$ 554
Furnishings & Equipment	2,120	271	(167)	2,224
Accumulated Depreciation	(1,406)	(444)	148	(1,702)
Total	\$ 1,245	\$ (150)	\$ (19)	\$ 1,076

I. Leases

DRS leases land, office facilities, office and computer equipment. Lease terms vary. Leases are considered non-cancelable for financial reporting purposes. All DRS leases are classified as operating leases with the lease payments recorded as expenditures or expenses during the life of the lease. Certain operating leases are renewable for specified periods. In most cases, management expects that the leases will be renewed or replaced by other leases.

The following schedule presents future minimum payments for operating leases as of June 30, 2004:

Operating Leases (expressed in thousands)	
By Fiscal Year:	
2005	\$1,251
2006	1,243
2007	1,262
2008	1,213
2009	692
Total Future Minimum Payments	<u>\$5,661</u>

The total operating lease rental expenditure for Fiscal Year 2004 was \$1.2 million.

J. Long-Term Liabilities

Annual Leave: DRS employees accrue annual leave at a variable rate based on years of service. In general, accrued annual leave cannot exceed 30 days at the employee's anniversary date. The expense and accrued liability is recognized when the annual leave is earned. DRS' liability for accumulated annual leave was \$0.9 million as of June 30, 2004.

Sick Leave: Employees accrue sick leave at the rate of one day per month without limitation on the amount that can be accumulated. Sick leave is not vested; i.e., the department does not pay employees for unused sick leave upon termination except upon employee death or retirement, at which time DRS is liable for 25 percent of the employee's accumulated sick leave. In addition, the department has a "sick leave buyout option" in which each January, employees who accumulate sick leave in excess of 60 days may redeem sick

leave earned but not taken during the previous year at the rate of one day's pay in exchange for each four days of sick leave. The expense and accrued liability is recognized when the sick leave is earned. DRS' liability for accumulated sick leave was \$0.3 million as of June 30, 2004.

Following is a summary of changes in compensated absences for the fiduciary funds for Fiscal Year 2004:

Compensated Absences	Beginning Balance	Additions	Deletions	Ending Balance
(expressed in thousands)				
Annual Leave	\$913	\$972	\$1,030	\$855
Sick Leave	340	144	158	326
Total	<u>\$1,253</u>	<u>\$1,116</u>	<u>\$1,188</u>	<u>\$1,181</u>

K. Interfund Transfers

Interfund transfers, as reported in the financial statements, reflect routine transfers among the various trust funds resulting from plan membership changes and member-directed defined contribution plan selections.

Note 2: General Description of the Retirement Systems

A. General

The Department of Retirement Systems (DRS) administers retirement systems covering eligible employees of the state and local governments. The state Legislature establishes laws pertaining to the creation and administration of all public retirement systems, and the Governor appoints the Director of DRS to manage the systems. Information pertinent to each system is provided later in this section.

Administration of the PERS, SERS, TRS, and LEOFF systems and plans was funded by an employer rate of .22 percent of employee salaries. Administration of the WSPRS, JRS, and Judges' plans was funded by means of legislative appropriations.

As established in the Revised Code of Washington (RCW) chapter 41.50, DRS administers seven retirement systems comprising 11 defined benefit pension plans and three combination defined benefit/defined contribution plans as follows:

Public Employees' Retirement System (PERS)

Plan 1—defined benefit

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

School Employees' Retirement System (SERS)

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

Teachers' Retirement System (TRS)

Plan 1—defined benefit

Plan 2—defined benefit

Plan 3—defined benefit/defined contribution

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF)

Plan 1—defined benefit

Plan 2—defined benefit

Washington State Patrol Retirement System (WSPRS)

Plan 1—defined benefit

Plan 2—defined benefit

Judicial Retirement System (JRS)

Defined benefit

Judges' Retirement Fund (Judges)

Defined benefit

Number of Participating Members

Plan	Retirees and Beneficiaries Receiving Benefits	Terminated Members Entitled to But Not Yet Receiving Benefits	Active Plan Members Vested	Active Plan Members Nonvested	Total
PERS Plan 1	54,372	3,142	18,355	1,385	77,254
PERS Plan 2	10,904	16,089	72,343	44,919	144,255
PERS Plan 3	86	770	9,771	7,777	18,404
SERS Plan 2	736	1,902	14,613	6,891	24,142
SERS Plan 3	306	1,648	11,492	16,218	29,664
TRS Plan 1	33,855	1,649	10,898	277	46,679
TRS Plan 2	957	2,493	6,936	701	11,087
TRS Plan 3	385	2,418	18,646	28,617	50,066
LEOFF Plan 1	8,054	14	991	-	9,059
LEOFF Plan 2	316	439	10,557	4,003	15,315
WSPRS Plan 1	735	93	825	220	1,873
WSPRS Plan 2	-	-	-	34	34
JRS	129	3	21	-	153
Judges	17	-	-	-	17
Total	110,852	30,660	175,448	111,042	428,002

The latest actuarial valuation date for all plans was September 30, 2003.

Source: Washington State Office of the State Actuary

Number of Participating Employers

Plan	State Agencies	School Districts	Counties/Municipalities	Other Political Subdivisions	Total
PERS Plan 1	155	246	207	251	859
PERS Plan 2	170	-	269	448	887
PERS Plan 3	147	-	170	214	531
SERS Plan 2	9	288	-	-	297
SERS Plan 3	10	288	-	-	298
TRS Plan 1	83	284	-	-	367
TRS Plan 2	40	269	-	-	309
TRS Plan 3	42	292	-	-	334
LEOFF Plan 1	-	-	99	22	121
LEOFF Plan 2	9	-	221	137	367
WSPRS Plan 1	1	-	-	-	1
WSPRS Plan 2	1	-	-	-	1
JRS	3	-	-	-	3
Judges	-	-	-	-	-
Total	670	1,667	966	1,072	4,375

Employers can participate in multiple systems and/or plans. The actual total number of participating employers as of June 30, 2004 is 1,274.

For a listing of the covered employers, refer to the Statistical Section of this report.

B. Plan Descriptions

Public Employees' Retirement System (PERS): PERS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. PERS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants joining the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3.

PERS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

PERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the PERS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in PERS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from PERS-covered employment.

PERS defined contribution benefits are financed from employee contributions and investment earnings. Employees in PERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from PERS-covered employment.

The Legislature established PERS in 1947. Membership in the system includes: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. TIAA/CREF is not administered by DRS. Approximately 51 percent of PERS salaries are accounted for by state employment. PERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

PERS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual benefit is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during any 24 eligible consecutive compensation months), capped at 60 percent.

PERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to June 1, 2003. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of PERS Plan 3.

PERS Plan 1 provides duty and non-duty disability benefits. Duty disability retirement benefits for disablement prior to the age of 60 consist of a temporary life annuity payable to the age of 60. The allowance amount is \$350 a month, or two-thirds of the monthly AFC, whichever is less. The benefit is reduced by any worker's compensation benefit and is payable as long as the member remains disabled or until the member attains the age of 60. A member with five years of covered employment is eligible for non-duty disability retirement. Prior to the age of 55, the allowance amount is 2 percent of the AFC for each year of service reduced by 2 percent for each year that the member's age is less than 55. The total benefit is limited to 60 percent of the AFC.

PERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a \$150,000 death benefit to the beneficiary of an employee of schools,

higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries.

There were no material changes in PERS benefit provisions for the fiscal year ended June 30, 2004.

PERS pension benefit provisions have been established by chapter 41.40 RCW.

School Employees' Retirement System (SERS): SERS is a cost-sharing multiple-employer retirement system comprised of two separate plans for membership purposes: Plan 2 is a defined benefit plan and Plan 3 is a combination defined benefit/defined contribution plan. As of September 1, 2000, the membership of classified school employees in PERS Plan 2 was transferred to SERS Plan 2. Those who joined on or after October 1, 1977 and by August 31, 2000 are SERS Plan 2 members unless they exercised an option to transfer their membership to Plan 3. SERS participants joining the system on or after September 1, 2000, and those who exercised their transfer option, are members of SERS Plan 3.

SERS is comprised of two separate plans for accounting purposes: Plan 2/3 and Plan 3. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan 3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

SERS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the SERS Plan 2 defined benefit plan accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded

quarterly. Employees in SERS Plan 2 can elect to withdraw total employee contributions and interest thereon upon separation from SERS-covered employment. SERS defined contribution benefits are financed from employee contributions and investment earnings. Employees in SERS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from SERS-covered employment.

Membership in the system includes classified employees of school districts or educational service districts. SERS is comprised principally of non-state employees. SERS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

SERS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the average final compensation (AFC) per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in PERS Plan 2 prior to September 1, 2000. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same

cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of SERS Plan 3.

SERS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3 the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a \$150,000 death benefit to the beneficiary of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries.

There were no material changes in SERS benefit provisions for the fiscal year ended June 30, 2004.

SERS pension benefit provisions have been established by chapter 41.35 RCW.

Teachers' Retirement System (TRS): TRS is a cost-sharing multiple-employer retirement system comprised of three separate plans for membership purposes: Plans 1 and 2 are defined benefit plans and Plan 3 is a combination defined benefit/defined contribution plan. TRS participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3.

TRS is comprised of three separate plans for accounting purposes: Plan 1, Plan 2/3, and Plan 3. Plan 1 accounts for the defined benefits of Plan 1 members. Plan 2/3 accounts for the defined benefits of Plan 2 members and the defined benefit portion of benefits for Plan 3 members. Plan 3 accounts for the defined contribution portion of benefits for Plan 3 members. Although members can only be a member of either Plan 2 or Plan 3, the defined benefit portions of Plan 2 and Plan

3 are accounted for in the same pension trust fund. All assets of this Plan 2/3 defined benefit plan may legally be used to pay the defined benefits of any of the Plan 2 or Plan 3 members or beneficiaries, as defined by the terms of the plan. Therefore, Plan 2/3 is considered to be a single plan for accounting purposes.

TRS defined benefit retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to the TRS Plan 1 and 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2003, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in TRS Plan 1 and 2 can elect to withdraw total employee contributions and interest thereon upon separation from TRS-covered employment. Employees in TRS Plan 3 can elect to withdraw total employee contributions adjusted by earnings and losses from the investment of those contributions upon separation from TRS-covered employment.

TRS was legislatively established in 1938. Eligibility for membership requires service as a certificated employee in grades K-12 in the public schools. TRS retirement benefit provisions are established in state statute and may be amended only by the State Legislature.

TRS Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement after 30 years of service, or at the age of 60 with five years of service, or at the age of 55 with 25 years of service. The annual pension is 2 percent of the average final compensation (AFC) per year of service (AFC is based on the greatest compensation during the highest of any consecutive two compensation contract years), capped at 60 percent.

TRS Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 65 with five years of service, or at the age of 55 with 20 years of service, with an allowance of 2 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 2 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older

with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. The defined benefit portion provides a benefit calculated at 1 percent of the AFC per year of service. (AFC is based on the greatest compensation during any eligible consecutive 60-month period.) Plan 3 members become eligible for retirement if they have: at least ten years of service; or five years including 12 months that were earned after age 54; or five service credit years earned in TRS Plan 2 by July 1, 1996 and transferred to Plan 3. Plan 3 retirements prior to the age of 65 receive reduced benefits. If retirement is at age 55 or older with at least 30 years of service, a 3 percent per year reduction applies; otherwise an actuarial reduction will apply. There is no cap on years of service credit; and Plan 3 provides the same cost-of-living allowance as Plan 2. See section D of Note 2 for a description of the defined contribution component of TRS Plan 3.

TRS Plan 1 provides death and duty disability benefits. TRS Plan 1 members receive the following additional lump sum death benefits: retired members-\$400 (if at least 10 years of membership service), active members-\$600. Members on temporary disability receive a temporary life annuity of \$180 per month payable up to two years. After five years of service, members on a disability retirement receive an allowance based on their salary and service to date of disability. Members enrolled in TRS prior to April 25, 1973, may elect a benefit based on the formula in effect at that time.

TRS Plan 2 and Plan 3 provide disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the AFC for each year of service. For Plan 3, the allowance amount is 1 percent of the AFC for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 65, and to reflect the choice of a survivor option.

Legislation passed in the 2003 session provides a \$150,000 death benefit to the estate of an employee of schools, higher education and state agencies who dies in the line of service, if found eligible by the Department of Labor and Industries.

There were no material changes in TRS benefit provisions for the fiscal year ended June 30, 2004.

TRS pension benefit provisions have been established by chapters 41.32 and 41.34 RCW.

Law Enforcement Officers' and Fire Fighters' Retirement System (LEOFF): LEOFF is a cost-sharing multiple-employer retirement system comprised of two separate defined benefit plans. LEOFF participants who joined the system by September 30, 1977 are Plan 1 members. Those who joined on or after October 1, 1977 are Plan 2 members.

LEOFF defined benefit retirement benefits are financed from a combination of investment earnings, employer and employee contributions, and a special funding situation in which the state pays through state legislative appropriations. Employee contributions to the LEOFF Plan 1 and Plan 2 defined benefit plans accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded quarterly. Employees in LEOFF Plan 1 and 2 can elect to withdraw total employee contributions and interest earnings thereon upon separation from LEOFF-covered employment.

LEOFF was established in 1970 by the Legislature. Membership includes all full-time, fully compensated, local law enforcement officers and firefighters. LEOFF membership is comprised primarily of non-state employees, with Department of Fish and Wildlife enforcement officers who were first included prospectively effective July 27, 2003, being a major exception. Effective July 1, 2003, the LEOFF Plan 2 Retirement Board was established by Initiative 790 to provide governance of LEOFF Plan 2. The Board's duties include adopting contribution rates and recommending policy changes to the Legislature for the LEOFF Plan 2 retirement plan. LEOFF retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

LEOFF Plan 1 retirement benefits are vested after an employee completes five years of eligible service. Plan 1 members are eligible for retirement with five years of service at the age of 50. The benefit per year of service calculated as a percent of final average salary (FAS) is as follows:

Term of Service	Percent of FAS
20+	2.0%
10 - 19	1.5%
5 - 9	1.0%

The FAS is the basic monthly salary received at the time of retirement, provided a member has held the same position or rank for 12 months preceding the date of retirement. Otherwise, it is the average of the highest consecutive 24 months' salary within the last 10 years of service. If membership was established in LEOFF after February 18, 1974, the service retirement benefit is capped at 60 percent of FAS. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index).

LEOFF Plan 2 retirement benefits are vested after an employee completes five years of eligible service. Plan 2 members may retire at the age of 50 with 20 years of service, or at the age of 53 with five years of service, with an allowance of 2 percent of the FAS per year of service (FAS is based on the highest consecutive 60 months). Plan 2 retirements prior to the age of 53 are reduced 3 percent for each year that the benefit commences prior to age 53. There is no cap on years of service credit; and a cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually.

LEOFF Plan 1 provides death and disability benefits. Death benefits for Plan 1 members on active duty consist of the following: (1) If eligible spouse, 50 percent of the FAS, plus 5 percent of FAS for each surviving child, with a limitation on the combined allowances of 60 percent of the FAS; or (2) If no eligible spouse, 30 percent of FAS for the first child plus 10 percent for each additional child, subject to a 60 percent limitation of FAS. In addition, a duty death benefit of \$150,000 is provided to Plan 1 and Plan 2 members.

The LEOFF Plan 1 disability allowance is 50 percent of the FAS plus 5 percent for each child up to a maximum of 60 percent. Upon recovery from disability before the age of 50, a member is restored to service with full credit for service while disabled. Upon recovery after the age of 50, the benefit continues as the greater of the member's disability allowance or service retirement allowance.

LEOFF Plan 2 provides disability benefits. There is no minimum amount of service credit required for eligibility. The Plan 2 allowance amount is 2 percent of the FAS for each year of service. Benefits are actuarially reduced for each year that the member's age is less than 53, and to reflect the choice of a survivor option.

Legislation passed in the 2004 session allows members of LEOFF Plan 2 who leave service because of a line of duty disability to withdraw 150 percent of accumulated member contributions. This withdrawal benefit is not subject to federal income tax. Alternatively, members of LEOFF Plan 2 who leave service because of a line of duty disability may be eligible to receive a retirement allowance of at least 10 percent of final average salary. If the two percent per year of service disability benefit, actuarially reduced for the difference between age 53 and age at retirement, results in a greater benefit than the minimum 10 percent, the member receives the greater benefit. The first 10 percent of the FAS is not subject to federal income tax. The line-duty disability benefit applies to all LEOFF Plan 2 members disabled in the line of duty on or after January 1, 2001.

There were no other material changes in LEOFF benefit provisions for the year ended June 30, 2004.

LEOFF pension benefit provisions have been established by chapter 41.26 RCW.

Washington State Patrol Retirement System (WSPRS):

WSPRS is a single-employer defined benefit retirement system. WSPRS participants who joined the system by December 31, 2002 are Plan 1 members. Those who joined on or after January 1, 2003 are Plan 2 members. For financial reporting and investment purposes, however, both plans are accounted for in the same pension fund.

WSPRS retirement benefits are financed from a combination of investment earnings and employer and employee contributions. Employee contributions to WSPRS accrue interest at a rate specified by DRS. During Fiscal Year 2004, the DRS-established rate on employee contributions was 5.5 percent compounded annually and posted monthly. Employees in WSPRS can elect to withdraw total employee contributions and interest earnings thereon upon separation from WSPRS-covered employment.

WSPRS was established by the Legislature in 1947. Any commissioned employee of the Washington State Patrol is eligible to participate. WSPRS benefits are established in state statute and may be amended only by the state Legislature.

WSPRS retirement benefits are vested after an employee completes five years of eligible service. Members are eligible for retirement at the age of 55 with five years of service, or after 25 years of service. The annual pension is 2 percent of the average final salary (AFS), capped at 75 percent, per year of service. A cost-of-living allowance is granted (indexed to the Seattle Consumer Price Index), capped at 3 percent annually).

WSPRS benefit provisions include death benefits; however, the system provides no disability benefits. Disability benefits may be available from the Washington State Patrol. If disability benefits are received, the member may be eligible to acquire service credit for the period of disability. In addition, a duty death benefit of \$150,000 is provided to WSPRS members.

For WSPRS Plan 1 members, AFS is based on the average of the two highest-paid service credit years and excludes voluntary overtime. Death benefits for these members, if on active duty, consist of the following: (1) If eligible spouse, 50 percent of the AFS, plus 5 percent of the AFS for each surviving child, with a limitation on the combined allowances of 60 percent of the AFS; or (2) If no eligible spouse, 30 percent of AFS for the first child plus 10% for each additional child, subject to a 60 percent limitation of AFS.

For WSPRS Plan 2 members, AFS is based on the average of the five consecutive highest-paid service credit years and

excludes both voluntary overtime and cash-outs of annual and holiday leave. At retirement, these members also have the option of selecting an actuarially reduced benefit in order to provide for post-retirement survivor benefits. Death benefits for these members, if on active duty, consist of the following: (1) If the member is single or has less than 10 years of service, the return of the member's accumulated contributions; or (2) If the member is married, has an eligible child, or has completed 10 years of service, a reduced benefit allowance reflecting a joint and 100 percent survivor option or 150 percent of the member's accumulated contributions, at the survivor's option.

Legislation passed in the 2004 session provides that beneficiaries of a WSPRS Plan 2 member with 10 years of service who is killed in the course of employment would receive retirement benefits without actuarial reduction for retirement prior to normal eligibility. The legislation applies to any member killed in the course of employment, as determined by the Director of the Department of Labor and Industries, on or after June 10, 2004.

There were no other material changes in WSPRS benefit provisions for the fiscal year ended June 30, 2004.

WSPRS pension benefit provisions have been established by chapter 43.43 RCW.

Judicial Retirement System (JRS): JRS is an agent multiple-employer retirement system comprised of a single defined benefit plan. JRS retirement benefits are financed on a pay-as-you-go basis from a combination of investment earnings, employer contributions, employee contributions, and a special funding situation in which the state pays the remaining contributions. JRS employees accrue no interest on contributions and may not elect to withdraw their contributions upon termination.

JRS was established by the Legislature in 1971. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts on or after August 9, 1971. The system was closed to new entrants on July 1,

1988, with new judges joining PERS Plan 2. JRS retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

JRS members are eligible for retirement at the age of 60 with 15 years of service, or at the age of 60 after 12 years of service (if the member left office involuntarily) with at least 15 years after beginning judicial service.

The benefit per year of service calculated as a percent of average final compensation (AFC) is as follows:

Term of Service	Percent of AFC
15+	3.5%
10 - 14	3.0%

Death and disability benefits are also provided. Eligibility for death benefits while on active duty requires ten or more years of service. A monthly spousal benefit is provided which is equal to 50 percent of the benefit a member would have received if retired. If the member is retired, the surviving spouse receives the greater of 50 percent of the member's retirement benefit or 25 percent of the AFC. For members with ten or more years of service, a disability benefit of 50 percent of AFC is provided.

There were no material changes in JRS benefit provisions for the fiscal year ended June 30, 2004.

JRS Pension benefit provisions have been established by chapter 2.10 RCW.

Judges' Retirement Fund: The Judges' Retirement Fund is an agent multiple-employer retirement system comprised of a single defined benefit plan. Retirement benefits are financed on a pay-as-you-go basis from a combination of employee contributions, employer contributions, and a special funding situation in which the state pays the remaining contributions. Employees do not earn interest on their contributions, nor can they elect to withdraw their contributions upon termination.

The Judges' Retirement Fund was created by the Legislature on March 22, 1937, pursuant to RCW 2.12, to provide retirement benefits to judges of the Supreme Court, Court of Appeals, or Superior Courts of the state of Washington. Subsequent legislation required that all judges first appointed or elected to office on or after August 9, 1971, enter the Judicial Retirement System. Judges' retirement benefit provisions are established in state statute and may be amended only by the state Legislature.

Judges' members are eligible for retirement at the age of 70 with ten years of service, or at any age with 18 years of service. Members are eligible to receive a partial retirement allowance after 12 years of credited service as a judge. With the exception of a partial retirement allowance, the member receives a benefit equal to one-half of the monthly salary being received as a judge at the time of retirement, or at the end of the term immediately prior to retirement if retirement occurs after the expiration of the member's term in office. A partial retirement allowance is based on the proportion of the member's 12 or more years of service in relation to 18 years of service.

There were no material changes in Judges' benefit provisions for the fiscal year ended June 30, 2004.

Pension benefit provisions have been established by chapter 2.12 RCW.

C. Funding Policy

PERS: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for State agencies and local government unit employees, and at 7.5 percent for State government elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. PERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who

participate in the defined contribution portion of PERS Plan 3 do not contribute to the defined benefit portion of PERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.40 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

PERS Actual Contribution Rates			
	Plan 1	Plan 2	Plan 3
Employer Rates:			
State Agencies*	1.40%	1.40%	1.40% **
Local Governmental Units*	1.40%	1.40%	1.40% **
State Government Elected Officials*	1.99%	1.40%	1.40% **
Employee Rates:			
State Agencies	6.00%	1.18%	***
Local Governmental Units	6.00%	1.18%	***
State Government Elected Officials	7.50%	1.18%	***

*Includes an administrative expense rate of 0.22 percent.
 **Plan 3 defined benefit portion only.
 ***Variable from 5% to 15% based on rate selected by the member.

SERS: Each biennium, the state Pension Funding Council adopts Plan 2 employer and employee contribution rates and Plan 3 employer contribution rates. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. SERS Plan 3 defined contribution is a non-contributing plan for employers. Employees who participate in the defined contribution portion of SERS Plan 3 do not contribute to the defined benefit portion of SERS Plan 3. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.35 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

SERS Actual Contribution Rates		
	Plan 2	Plan 3
Employer Rates:		
State Agencies*	1.07%	1.07% **
Local Governmental Units*	1.07%	1.07% **
Employee Rates:		
State Agencies	0.85%	***
Local Governmental Units	0.85%	***

*Includes an administrative expense rate of 0.22 percent.
 ** Plan 3 defined benefit portion only.
 ***Variable from 5% to 15% based on rate selected by the member.

TRS: Each biennium, the state Pension Funding Council adopts Plan 1 employer contribution rates, Plan 2 employer and employee contribution rates, and Plan 3 employer contribution rates. Employee contribution rates for Plan 1 are established by statute at 6 percent for State agencies and local government unit employees, and at 7.5 percent for State elected officials. The employer and employee contribution rates for Plan 2 and the employer contribution rate for Plan 3 are developed by the Office of the State Actuary to fully fund Plan 2 and the defined benefit portion of Plan 3. All employers are required to contribute at the level established by the Legislature. Under TRS Plan 3, employer contributions finance the defined benefit portion of the plan and member contributions finance the defined contribution portion. The Employee Retirement Benefits Board sets Plan 3 employee contribution rates. Six rate options are available ranging from 5 to 15 percent; two of the options are graduated rates dependent on the employee's age.

The methods used to determine the contribution requirements are established under state statute in accordance with chapters 41.32 and 41.45 RCW.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

TRS Actual Contribution Rates

	Plan 1	Plan 2	Plan 3
Employer Rates*	1.39%	1.39%	1.39% **
Employee Rates:			
State Agencies	6.00%	0.87%	***
Local Governmental Units	6.00%	0.87%	***
State Government Elected Officials	7.50%	0.87%	***

*Includes an administrative expense rate of 0.22 percent.
 **Plan 3 defined benefit portion only.
 ***Variable from 5% to 15% based on rate selected by the member.

LEOFF: Starting on July 1, 2000, Plan 1 employers and employees will contribute zero percent as long as the plan remains fully funded. Employer and employee contribution rates are developed by the Office of the State Actuary to fully fund the plan. Plan 2 employers and employees are required to pay at the level adopted by DRS in accordance with 41.45 RCW. All employers are required to contribute at the level required by state law.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

LEOFF Actual Contribution Rates

	Plan 1	Plan 2
Employer Rates:		
Cities, Counties, Fire Districts, etc.*	0.22%	3.26%
Ports and Universities*	n/a	5.29%
Employee Rates:		
Cities, Counties, Fire Districts, etc.	--	5.07%
Ports and Universities	n/a	5.07%
State of Washington Contributions	n/a	2.03%

*Includes an administrative expense rate of 0.22 percent.

The Legislature, by means of a special funding arrangement, appropriated money from the state General Fund to supplement the current service liability and fund the prior service costs of Plan 2 in accordance with the requirements of the Pension Funding Council. However, this special funding situation is not mandated by the state constitution and this funding requirement could be returned to the employers by a change of statute. For Fiscal Year 2004, the state contributed \$20.2 million to LEOFF Plan 2.

WSPRS: State statute (chapter 43.43 RCW) obligates employees to contribute at a fixed rate of 2 percent for Fiscal Year 2004. Contribution rates for the employee and the state are adopted by the Pension Funding Council as per chapter 41.45 RCW. The employee and the state are required to contribute at the level required by state statute.

Required contribution rates (expressed as a percentage of current-year covered payroll) at the close of Fiscal Year 2004 were as follows:

WSPRS Actual Contribution Rates

	Plan 1	Plan 2
Employer Rate	--	--
Employee Rate	2.00%	2.00%

JRS: Contributions made are based on rates set in 2.10 RCW. By statute, employees are required to contribute 7.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the JRS on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2004, the state contributed \$6.0 million.

Judges: Contributions made are based on rates set in 2.12 RCW. By statute, employees are required to contribute 6.5 percent with an equal amount contributed by the state. In addition, the state guarantees the solvency of the Judges' Retirement fund on a pay-as-you-go basis. Each biennium, the Legislature, through biennial appropriations from the state General Fund, contributes amounts sufficient to meet benefit payment requirements. For Fiscal Year 2004, the state contributed \$0.5 million.

D. Employer Contributions Required and Paid

The following table presents DRS' required contributions to cost-sharing plans in accordance with the funding policy. All contributions required by the funding method were paid.

	2004	2003	2002
(amounts expressed in thousands)			
PERS Plan 1	\$ 28.3	\$ 26.9	\$ 37.6
PERS Plan 2/3	137.0	133.1	163.4
TRS Plan 1	<u>0.6</u>	<u>0.5</u>	<u>1.3</u>
Total	\$ 165.9	\$ 160.5	\$ 202.3

E. Defined Contribution Plans

Public Employees' Retirement System Plan 3: The Public Employees' Retirement System (PERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include: elected officials; state employees; employees of the Supreme, Appeals, and Superior Courts (other than judges currently in a judicial retirement system); employees of legislative committees; community and technical colleges, college and university employees not in national higher education retirement programs such as Teachers' Insurance and Annuity Association/College Retirement Equity Fund (TIAA/CREF); judges of district and municipal courts; and employees of local governments. PERS participants who joined on or after October 1, 1977 and by either, February 28, 2002 for state and higher education employees, or August 31, 2002 for local government employees, are Plan 2 members unless they exercise an option to transfer their membership to Plan 3. PERS participants who joined the system on or after March 1, 2002 for state and higher education employees, or September 1, 2002 for local government employees have the irrevocable option of choosing membership in either PERS Plan 2 or PERS Plan 3. The option must be exercised within 90 days of employment. An employee is reported in Plan 2 until a choice is made. Employees who fail to choose within 90 days default to PERS Plan 3. As of June 30, 2004, there are 531 participating employers in PERS Plan 3. See section B of Note 2 for PERS plan descriptions.

PERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.40, employee contribution rates to the defined contribution component range from 5 percent to

15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of PERS Plan 3.

Membership in PERS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	86
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	770
Active Plan Members Vested	9,771
Active Plan Members Nonvested	<u>7,777</u>
Total	18,404

PERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, PERS Plan 3 investments are made in the same portfolio as that of the PERS 2/3 defined benefit plan.

For Fiscal Year 2004, employee contributions were \$53.2 million, and plan refunds paid out were \$26.6 million.

School Employees' Retirement System Plan 3: The School Employees' Retirement System (SERS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include classified employees of school districts and educational service districts who joined PERS Plan 2 on or after October 1, 1977 and by August 31, 2000, and were transferred to SERS Plan 2 on September 1, 2000. Members transferred from PERS Plan 2 to SERS Plan 2 may exercise an option to transfer their membership to SERS Plan 3. SERS participants joining the system on or after September 1, 2000, are also members of SERS Plan 3. As of June 30, 2004, there are 298 participating employers in SERS Plan 3. See section B of Note 2 for SERS plan descriptions.

SERS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.35, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of SERS Plan 3.

Membership in SERS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	306
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	1,648
Active Plan Members Vested	11,492
Active Plan Members Nonvested	<u>16,218</u>
Total	29,664

SERS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, SERS Plan 3 investments are made in the same portfolio as that of the SERS 2/3 defined benefit plan.

For Fiscal Year 2004, employee contributions were \$43.8 million, and plan refunds paid out were \$12.4 million.

Teachers' Retirement System Plan 3: The Teachers' Retirement System (TRS) Plan 3 is a combination defined benefit/defined contribution plan administered by the state through DRS. Eligible employees include certificated employees in grades K-12 in the public schools. TRS participants who joined on or after October 1, 1977 and by June 30, 1996 are Plan 2 members unless they exercised an option to transfer their membership to Plan 3. TRS participants joining the system on or after July 1, 1996, and those who exercised their transfer option, are members of TRS Plan 3. As of June 30,

2004, there are 334 participating employers in TRS Plan 3. See section B of Note 2 for TRS plan descriptions.

TRS Plan 3 has a dual benefit structure. Employer contributions finance a defined benefit component, and member contributions finance a defined contribution component. As established by RCW 41.34, employee contribution rates to the defined contribution component range from 5 percent to 15 percent of salaries based on member choice. There are currently no requirements for employer contributions to the defined contribution component of TRS Plan 3.

Membership in TRS Plan 3 consisted of the following as of the latest actuarial valuation date of September 30, 2003:

Retirees and Beneficiaries Receiving Benefits	385
Terminated Plan Members Entitled to but Not Yet Receiving Benefits	2,418
Active Plan Members Vested	18,646
Active Plan Members Nonvested	<u>28,617</u>
Total	50,066

TRS Plan 3 defined contribution retirement benefits are solely dependent upon the results of investment activities. Members may elect to self-direct the investment of their contributions as authorized by the Employee Retirement Benefits Board. Any expenses caused in conjunction with self-directed investments are to be paid by members. Absent a member's self-direction, TRS Plan 3 investments are made in the same portfolio as that of the TRS 2/3 defined benefit plan.

For Fiscal Year 2004, employee contributions required and made were \$173.1 million and plan refunds paid out were \$25.9 million.

Judicial Retirement Account: The Judicial Retirement Account (JRA) was established by the Legislature in 1988 to provide supplemental retirement benefits. It is a defined contribution plan administered by the state of Washington Administrative Office of the Courts, under the direction of the Board for Judicial Administration. Membership includes judges elected or appointed to the Supreme Court, Court of Appeals, and Superior Courts, and who are members of the

PERS for their services as a judge. Vesting is full and immediate. At June 30, 2004, there were 189 active members and 15 inactive members in JRA. There are three participating employers in JRA.

Plan members are required to contribute 2.5 percent of covered salary. The state, as employer, shall contribute an equal amount on a monthly basis. Contributions are collected by the Administrator for the Courts. The employer and employee obligations to contribute are established per RCW 2.14. Plan provisions and contribution requirements are established in state statute and may be amended only by the State Legislature.

A JRA member who separates from judicial service for any reason is entitled to receive a lump-sum distribution of the accumulated contributions. If a member dies, the amount of accumulated contributions standing to the member's credit at the time of the member's death shall be paid to such a person or persons having an insurable interest in the member's life, per written designation of the member.

The Administrator of JRA has entered an agreement with DRS for accounting and reporting services, and the Washington State Investment Board (WSIB) for investment services. DRS shall be responsible for all record keeping, accounting, and reporting of member accounts. The WSIB shall have the full power to establish investment policy, develop participant investment options, and manage the investment funds from the JRA plan, consistent with the provisions of RCW 2.14.080 and RCW 43.84.150.

F. Deferred Compensation Plan

The state of Washington offers its employees and employees of those political subdivisions that elect to participate, a deferred compensation plan pursuant to RCW 41.50.770, in accordance with Internal Revenue Code section 457. Under the plan, eligible employees elect to defer a portion of their salary until future time periods. The deferred compensation is not available to employees until termination, retirement, disability, death or unforeseeable financial emergency. This deferred compensation plan is administered by DRS.

All amounts of compensation deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, shall be held in trust by the Washington State Investment Board (WSIB), as set forth under RCW 43.33A.030, for the exclusive benefit of the state deferred compensation plan's participants and their beneficiaries. Neither the participant, nor the participant's beneficiary or beneficiaries, nor any other designee, has any right to commute, sell, assign, transfer, or otherwise convey the right to receive any payments under the plan. These payments and rights thereto are nonassignable and nontransferable.

Employees participating in the state deferred compensation plan administered by DRS shall self-direct the investment of the deferred portion of their income through the selection of investment options. These options are provided by the WSIB after consultation with the Employee Retirement Benefits Board. The WSIB has the full power to invest moneys in the state deferred compensation plan in accordance with RCW 43.84.150, 43.33A.140, and 41.50.770. Pursuant to RCW 41.50.770, no state board, commission, agency, or any officer, employee or member thereof is liable for any loss or deficiency resulting from participant investments selected, or from reasonable efforts to implement investment directions.

The deferred compensation plan offers a stable principal Savings Pool and eleven other diversified investment options. The investment options consist of the following:

- Savings Pool
- Fidelity Equity-Income Fund
- Fidelity Growth Company Fund
- Fidelity Independence Fund
- Fidelity Overseas Fund
- U.S. Small Stock Index Fund
- U.S. Stock Market Index Fund
- Washington State Bond Fund
- Washington State Long-Horizon Fund
- Washington State Mid-Horizon Fund
- Washington State Short-Horizon Fund
- Washington State Social Balanced Fund

More detailed information and discussion regarding investment strategies and an overview of investments in general can be obtained by contacting DRS.

G. Dependent Care Assistance Program

The state of Washington offers its employees a dependent care assistance program pursuant to RCW 41.04.600, in accordance with Internal Revenue Code Section 129. Under the program, eligible employees elect to reduce their taxable salary (before federal income and social security taxes) by amounts paid or incurred by the employer for dependent care assistance provided to the employee. This dependent care assistance program is administered by DRS.

Participation requires the employee to estimate the amount of dependent care expense he/she expects to incur during the plan year. The amount of salary reduction elected should not exceed those expenses. The reductions are taken in equal amounts each regular pay period and deposited into a dependent care account. Eligible expenses are charges for care of a qualifying person inside or outside the employee's home which enable the employee to work. If the eligible employee is married, the expenses must also occur while the employee's spouse is employed (or if the employee's spouse is a full-time student, on days the spouse attends school). Qualifying persons are as follows:

- Children under age 13 who qualify as IRS dependents;
- Any other IRS dependent who is physically and/or mentally incapable of self-care; or
- A spouse who is physically or mentally incapable of self-care.

Every action taken by DRS in administering the dependent care assistance program shall be presumed to be a fair and reasonable exercise of the authority vested in or the duties imposed upon it. DRS shall be presumed to have exercised reasonable care, diligence, and prudence and to have acted impartially as to all persons interested unless the contrary be proved by clear and convincing affirmative evidence.

Required Supplementary Information

Schedule of Funding Progress: PERS Plan 1

	(dollars in millions)					
	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99	12/31/98
Actuarial Value of Plan Assets	\$10,227	\$10,757	\$10,990	\$11,111	\$10,456	\$9,219
Actuarial Accrued Liability	\$12,692	\$12,560	\$12,088	\$11,695	\$11,636	\$11,227
Unfunded Actuarial Liability	\$2,465	\$1,803	\$1,098	\$584	\$1,180	\$2,008
Percentage Funded	81%	86%	91%	95%	90%	82%
Covered Payroll	\$945	\$1,023	\$1,085	\$1,132	\$1,184	\$1,233
Unfunded Actuarial Liability as a Percentage of Covered Payroll	261%	176%	101%	52%	100%	163%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: TRS Plan 1

	(dollars in millions)					
	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/03	9/30/02	9/30/01	6/30/00	6/30/99	6/30/98
Actuarial Value of Plan Assets	\$9,086	\$9,366	\$9,342	\$9,372	\$8,696	\$7,819
Actuarial Accrued Liability	\$10,325	\$10,235	\$9,895	\$9,566	\$9,529	\$9,354
Unfunded Actuarial Liability	\$1,239	\$869	\$553	\$194	\$833	\$1,535
Percentage Funded	88%	92%	94%	98%	91%	84%
Covered Payroll	\$692	\$741	\$800	\$957	\$984	\$1,046
Unfunded Actuarial Liability as a Percentage of Covered Payroll	179%	117%	69%	20%	85%	147%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: LEOFF Plan 1

	(dollars in millions)					
	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99	12/31/98
Actuarial Value of Plan Assets	\$4,803	\$5,095	\$5,369	\$5,440	\$5,150	\$4,568
Actuarial Accrued Liability	\$4,275	\$4,259	\$4,153	\$4,002	\$4,125	\$3,906
Unfunded Actuarial Liability	\$(528)	\$(836)	\$(1,216)	\$(1,438)	\$(1,025)	\$(662)
Percentage Funded	112%	120%	129%	136%	125%	117%
Covered Payroll	\$71	\$80	\$87	\$95	\$106	\$117
Unfunded Actuarial Liability as a Percentage of Covered Payroll	(744)%	(1,045)%	(1,398)%	(1,513)%	(966)%	(566)%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: JRS

	(dollars in millions)					
	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99	12/31/98
Actuarial Value of Plan Assets	\$6	\$8	\$10	\$10	\$9	\$8
Actuarial Accrued Liability	\$91	\$92	\$92	\$93	\$94	\$97
Unfunded Actuarial Liability	\$85	\$84	\$82	\$83	\$85	\$89
Percentage Funded	7%	9%	11%	11%	10%	8%
Covered Payroll	\$3	\$3	\$3	\$4	\$4	\$4
Unfunded Actuarial Liability as a Percentage of Covered Payroll	2,833%	2,800%	2,733%	2,075%	2,125%	2,225%

Source: Washington State Office of the State Actuary

Schedule of Funding Progress: Judges

	(dollars in millions)					
	2003	2002	2001	2000	1999	1998
Actuarial Valuation Date	9/30/03	9/30/02	9/30/01	12/31/00	12/31/99	12/31/98
Actuarial Value of Plan Assets	\$5	\$5	\$5	\$5	\$4	\$4
Actuarial Accrued Liability	\$5	\$6	\$6	\$6	\$6	\$7
Unfunded Actuarial Liability	\$-	\$1	\$1	\$1	\$2	\$3
Percentage Funded	100%	83%	83%	83%	67%	57%
Covered Payroll	\$-	\$0.1	\$0.1	\$0.1	\$0.1	\$0.1
Unfunded Actuarial Liability as a Percentage of Covered Payroll	n/a	1,000%	1,000%	1,000%	2,000%	3,000%

Source: Washington State Office of the State Actuary

Note on PERS Plan 2/3, SERS Plan 2/3, TRS Plan 2/3, LEOFF Plan 2, and WSPRS Plan 1/2: These plans use the aggregate actuarial cost method which does not separately amortize unfunded actuarial liabilities, therefore, schedules of funding progress are not presented for these plans.

Schedule of Contributions from Employers and Other Contributing Entities

The following schedule covers the fiscal years ended 1999-2004.

	(dollars in millions)											
	Annual Required Contribution*						Percentage Contributed					
	2004	2003	2002	2001	2000	1999	2004	2003	2002	2001	2000	1999
PERS Plan 1	\$ 295.1	\$ 228.9	\$ 164.3	\$ 118.8	\$ 199.2	\$ 237.6	8%	25%	42%	153%	101%	99%
PERS Plan 2/3	192.6	141.7	72.0	55.6	103.6	86.6	36%	27%	71%	207%	98%	275%
SERS Plan 2/3**	52.3	44.2	19.5	6.7	--	--	17%	14%	58%	297%	n/a	n/a
TRS Plan 1	185.7	153.4	119.8	90.6	176.1	209.7	6%	13%	50%	156%	104%	106%
TRS Plan 2/3	96.2	79.5	66.7	40.4	56.2	45.9	31%	23%	70%	172%	134%	218%
LEOFF Plan 1	--	--	--	--	6.3	6.9	n/a	n/a	n/a	n/a	100%	104%
LEOFF Plan 2	69.2	56.8	43.7	33.8	44.9	37.2	74%	74%	91%	155%	96%	152%
WSPRS Plan 1/2	2.6	--	--	--	--	--	--	n/a	n/a	n/a	n/a	n/a
JRS	18.5	16.2	14.2	13.3	12.5	12.2	34%	38%	44%	55%	58%	72%
Judges	0.2	0.1	0.2	0.2	0.3	0.3	250%	300%	150%	400%	267%	267%

* The Annual Required Contribution (ARC) changes each year with the experience of the plans. Factors influencing the experience include changes in funding methods, assumptions, plan provisions, and economic and demographic gains and losses. The methods used to derive the ARC for this accounting disclosure are different from those used to derive the actual contributions required by law. These differences include the use of different actuarial valuations (actual contributions may be based on an earlier valuation) and different actuarial cost methods. For these reasons, the actual contributions will not match the Annual Required Contributions.

** SERS Plan 2/3 became effective on September 1, 2000

Source: Washington State Office of the State Actuary

Notes to the Required Supplementary Information

Defined Benefit Pension Plans

For the Fiscal Year Ended June 30, 2004

The information presented in the required supplementary schedules was determined as part of the actuarial valuations at the dates indicated below. Additional information as of the latest valuation follows.

	PERS Plan 1	PERS Plan 2/3	SERS Plan 2/3	TRS Plan 1	TRS Plan 2/3
Valuation - Date	9/30/2003	9/30/2003	9/30/2003	9/30/2003	9/30/2003
Actuarial Cost Method	entry age	aggregate**	aggregate**	entry age	aggregate**
Amortization Method					
Funding	level %	n/a	n/a	level %	n/a
GASB	level \$	n/a	n/a	level \$	n/a
Remaining Amortization Period (Closed)	6/30/2024	n/a	n/a	6/30/2024	n/a
Asset Valuation Method	8-year graded smoothed fair value****	8-year graded smoothed fair value****	8-year graded smoothed fair value****	8-year graded smoothed fair value****	8-year graded smoothed fair value****
Actuarial Assumptions:					
Investment Rate of Return	8.00%	8.00%	8.00%	8.00%	8.00%
Projected Salary Increases					
Salary Inflation at 4.5%, Plus the Merit Increases Described Below:					
Initial Salary Merit (Grades Down to 0%)	6.1%	6.1%	7.0%	6.2%	6.2%
Merit Period (Years of Service)	17 yrs	17 yrs	17 yrs	17 yrs	17 yrs
Includes Inflation at Cost of Living Adjustments	n/a Uniform COLA* Gainsharing COLA*	3.50% CPI increase, maximum 3%	3.50% CPI increase, maximum 3%	n/a Uniform COLA* Gainsharing COLA*	3.50% CPI increase, maximum 3%

* Generally, all retirees over age 66 receive an increase in their monthly benefit at least once a year. The Uniform COLA increase is added every July. On 7/1/1999 it was \$0.77 per year of service. The Gainsharing COLA is added every even-numbered year if certain extraordinary investment gains are achieved. In 1998 it was \$0.11. On 1/1/2000 it was \$0.28 per year of service. On 1/1/2002 it was \$0.00 per year of service. On 1/1/2004 it was \$0.00 per year of service. The next Uniform COLA amount is calculated as the last Uniform COLA amount plus any Gainsharing COLA amount, all increased by 3%. On 7/1/2000 it was $(\$0.77 + \$0.28) \times 1.03 = \$1.08$. On 7/1/2001 it was $(\$1.08 + \$0.00) \times 1.03 = \$1.11$. On 7/1/2002 it was $(\$1.11 + \$0.00) \times 1.03 = \$1.14$. On 7/1/2003 it was $(\$1.14 + \$0.00) \times 1.03 = \$1.18$. On 7/1/2004 it was $(\$1.18 + \$0.00) \times 1.03 = \$1.21$.

** The aggregate cost method does not identify or separately amortize unfunded actuarial liabilities.

*** "Pay As You Go" for funding.

**** The actuarial value of assets is calculated under an adjusted market value method by starting with the market value of assets. For subsequent years, the actuarial value of assets is determined by adjusting the market value of assets to reflect the difference between the actual investment return and the expected investment return during each of the last eight years, or if fewer, the completed years since adoption, at the following rates per year (annual recognition):

Annual Gain/Loss					
Rate of Return	Smoothing Period	Annual Recognition	Rate of Return	Smoothing Period	Annual Recognition
15% and up	8 years	12.50%	6-7%	2 years	50.00%
14-15%	7 years	14.29%	5-6%	3 years	33.33%
13-14%	6 years	16.67%	4-5%	4 years	25.00%
12-13%	5 years	20.00%	3-4%	5 years	20.00%
11-12%	4 years	25.00%	2-3%	6 years	16.67%
10-11%	3 years	33.33%	1-2%	7 years	14.29%
9-10%	2 years	50.00%	1% and lower	8 years	12.50%
7-9%	1 year	100.00%			

Source: Washington State Office of the State Actuary

Chart continued on page 71

Chart continued from page 70

LEOFF Plan 1	LEOFF Plan 2	WSPRS Plan 1/2	Judicial	Judges
9/30/2003	9/30/2003	9/30/2003	9/30/2003	9/30/2003
entry age	aggregate**	aggregate**	entry age***	entry age***
level %	n/a	n/a	n/a	n/a
level \$	n/a	n/a	level \$	level \$
6/30/2024	n/a	n/a	12/31/2008	12/31/2008
8-year graded smoothed fair value****	8-year graded smoothed fair value****	8-year graded smoothed fair value****	market	market
8.00%	8.00%	8.00%	8.00%	8.00%
11.7%	11.7%	6.0%	0.0%	0.0%
21 yrs	21 yrs	20 yrs	n/a	n/a
3.50%	3.50%	3.50%	3.50%	3.50%
CPI increase	CPI increase, maximum 3%	CPI increase, maximum 3%	3.00%	none

Supporting Schedules

Schedule of Administrative Expenses
For the Year Ended June 30, 2004
(expressed in thousands)

	Retirement Pension Trust Funds	Deferred Compensation Pension Trust Fund	Dependent Care Administrative Special Revenue Fund	Totals	
				June 30, 2004	June 30, 2003
Current					
Personnel:					
Salaries and Wages	\$10,494	\$762	\$95	\$11,351	\$11,992
Employee Benefits	2,441	189	24	2,654	2,726
Personal Service Contracts	1,108	40	-	1,148	2,461
Total Personnel Expenses	<u>14,043</u>	<u>991</u>	<u>119</u>	<u>15,153</u>	<u>17,179</u>
Goods and Services:					
Supplies and Materials	48	4	1	53	63
Communications	506	12	3	521	640
Utilities	90	7	1	98	95
Rental and Leases	1,114	92	12	1,218	1,167
Repairs and Alterations	110	3	-	113	118
Printing and Reproduction	244	41	11	296	580
Employee Professional Development and Training	111	5	-	116	128
Subscriptions	13	10	-	23	30
Facilities and Services	263	37	5	305	312
Data Processing Services	1,333	30	13	1,376	2,128
Attorney General Services	62	15	4	81	84
Personnel Services	46	4	1	51	60
Medical Consultant Services	59	-	-	59	79
Insurance	87	8	1	96	91
Other Contractual Services	2,325	26	1	2,352	2,900
Vehicle Maintenance	8	5	-	13	9
Actuary Services	1,142	-	-	1,142	955
Pension Funding Council Services	-	-	-	-	39
Audit Services	203	18	2	223	136
Archives and Records Management	44	4	1	49	45
Legal Fees	865	-	-	865	945
Bad Debts Expense	5	-	-	5	71
Fraudulent Collections	106	-	-	106	102
OWMBE Services	1	-	-	1	2
Other Goods and Services	28	2	-	30	30
Total Goods and Services	<u>8,813</u>	<u>323</u>	<u>56</u>	<u>9,192</u>	<u>10,809</u>
Miscellaneous Expenses:					
Travel	102	19	2	123	102
Noncapitalized Equipment	402	38	-	440	278
Total Miscellaneous Expenses	<u>504</u>	<u>57</u>	<u>2</u>	<u>563</u>	<u>380</u>
Total Current Expenses	<u>23,360</u>	<u>1,371</u>	<u>177</u>	<u>24,908</u>	<u>28,368</u>
Capital Outlays:					
Furnishings, Equipment and Software	271	-	-	271	177
Improvements Other than Buildings	21	2	-	23	9
Total Capital Outlays	<u>292</u>	<u>2</u>	<u>-</u>	<u>294</u>	<u>186</u>
Depreciation - Capital Assets	<u>296</u>	<u>-</u>	<u>-</u>	<u>296</u>	<u>420</u>
Total Administrative Expenses	<u>\$23,948</u>	<u>\$1,373</u>	<u>\$177</u>	<u>\$25,498</u>	<u>\$28,974</u>

**Schedule of Investment Expenses
Pension Trust Funds
For the Year Ended June 30, 2004
(expressed in thousands)**

	Investment Management Expense
Public Equity Securities	
Passive Equity Managers	\$ 552
International Active Equity Managers	9,796
International Passive Equity Managers	143
Total Public Equity Securities	<u>10,491</u>
Alternative Investments	
Private Equity	7,825
Total Alternative Investments	<u>7,825</u>
Securities Lending	
Securities Lending Fees	6,841
Securities Lending Broker Rebates Paid	24,464
Total Securities Lending	<u>31,305</u>
Other Expenses	
Consultants and Advisors	1,770
Custodians	1,635
Legal Fees	368
PERS Plan 3 Management Fees	606
SERS Plan 3 Management Fees	316
TRS Plan 3 Management Fees	1,599
Deferred Compensation Management Fees	2,114
Miscellaneous Fees	54
OST Operating Costs	37
Total Other Expenses	<u>8,499</u>
Total Investment Expenses	<u><u>\$ 58,120</u></u>

Schedule of Payments to Consultants
For the Year Ended June 30, 2004
(expressed in thousands)

	Commission/Fee
Communications	
Daniels Brown Communications	\$ 19
Risdon and Associates	5
Total Communications	<u>24</u>
Computer/Technology	
Aetea Information Technology Inc.	158
Ajilon	153
Coastal Business Service Group, Inc.	726
Daniels Consulting	276
ImageSource, Inc.	3
Logicalis, Inc.	15
Martin Analysis and Programming, Inc.	280
Milestone Technology	155
Seitel Leeds & Associates, Inc.	14
Smith McCann Computer Resources, Inc.	135
Workflow Systems LLC	236
Total Computer/Technology	<u>2,151</u>
Legal	
Dixie Cattell & Associates	8
Ice Miller Legal & Business Advisors	39
Lane Powell Sears Lubersky LLP	29
Total Legal	<u>76</u>
Management	
Cost Effective Measurement	25
DHK Associates	2
Mercer Investment Consulting, Inc.	52
Peterson Sullivan PLLC	49
Professional Personnel Services	96
Total Management	<u>224</u>
Recordkeeping	
ICMA Retirement Corporation	1,000
Total Recordkeeping	<u>1,000</u>
Total Payments to Consultants	<u><u>\$ 3,475</u></u>

For fees paid to investment professionals, refer to the Investment section of this report.

Statement of Changes in Assets and Liabilities
Dependent Care Agency Fund
For the Year Ended June 30, 2004
(expressed in thousands)

	Balance 07/01/03	Additions	Deductions	Balance 06/30/04
ASSETS				
Cash and Pooled Investments	\$ 614	\$ 4,645	\$ 4,785	\$ 474
Total Assets	<u>\$ 614</u>	<u>\$ 4,645</u>	<u>\$ 4,785</u>	<u>\$ 474</u>
LIABILITIES				
Accounts Payable	\$ -	\$ 4,780	\$ 4,780	\$ -
Other Short-Term Liabilities	614	4,645	4,785	474
Total Liabilities	<u>\$ 614</u>	<u>\$ 9,425</u>	<u>\$ 9,565</u>	<u>\$ 474</u>

